80MVK21
Market survey UK - Health Foods

This Market survey is carried out by Organic Monitor,
by order of EVD and in cooperation with the Dutch embassy in London.

EVD
March 2009

Further information: EVD
Country officer: Ms. Dorine Verhoeven
Telephone: +31 70 778 89 58| email: verenigdkoninkrijk@info.evd.nl

Table of Contents

1 Introduction

1.1 Project Scope & Objectives

This report analyses the UK market for health foods, one of the largest and fastest growing in the world. The market is showing fast growth as consumers become more aware of the relationship between a good diet and health & wellness. Manufacturers and retailers are responding by introducing health foods in various formats.

There is no formal or widely accepted definition of health foods. For the purpose of this study, healthy food can be defined as products that are purchased for desired health benefits. According to this definition, health foods can be categorised as:

- Functional foods – fortified beverages, cereals, dairy products, etc.

- Organic foods – products that are made according to organic production methods

- Vegetarian foods – meat replacements and related foods

- Free-from foods – lactose-free and gluten-free foods

- Other health foods – whole foods like whole grain breakfast cereals, bakery foods, superfoods like oats, berries, broccoli, etc.

The purpose of this report is to analyse the UK health foods market and identify business openings for Dutch companies. The report has been prepared by Organic Monitor, a London-based research & consulting company that focuses on health & wellness industries, on behalf of the EVD, the Dutch government organisation for International Business and Cooperation.

1.2 Research Methodology

This report was prepared by a structured research methodology that involved several steps:

- Research design

- Secondary literature review and analysis

- Questionnaire development and testing

- Contact list development

- Primary research interviews

- Data analysis

- Management review & report preparation

After design of the research programme, a thorough review was undertaken of secondary sources. External sources included trade publications, industry reports, company and product literature (typically in the forms of magazines, trade journals, marketing brochures, company annual reports, and catalogues), internet sites, conference notes, newspaper articles, and CD-ROMs.

A review of internal sources was also conducted during the literature review. Information and contacts were taken from Organic Monitor's internal databases. A key resource was the previous reports Organic Monitor had published on health foods. These included The UK Market for Soya & Non-Dairy Products, UK Market for Organic Meat Products, UK Market for Functional Milk & Dairy Products, etc. Detailed desk research enabled primary research to focus on information gaps for the project and on identifying business openings for Dutch food producers.

Questionnaires were developed and tested for the primary research process. A contact list of key organisations in the UK health foods market was developed at this stage. The list comprised organisations operating at various levels of the supply chain, including food manufacturers, importers, wholesalers, and retailers.

Primary research was undertaken via personal and telephone interviews using pre-designed questionnaires. Interviews were conducted with the leading organisations in the health foods market. Most interviews were directed at health food importer, wholesalers, and retailers. The advantage of interviewing organisations at various levels of the supply chain is that a cross-section of perspectives is obtained and research data can be corroborated.

Information collected from secondary and primary research was analysed. A combination of the Delphi technique and the expert-consensus model was used to formulate the research findings. Detailed analysis of the research findings enabled business openings to be identified for Dutch companies. Case studies were given of companies that have been successful in each sector.

The final steps in the research methodology involved management review and report preparation. Senior management reviewed the research findings, giving strategic inputs. Separate sections have been prepared for each sector of the UK health foods market, which can be used as stand-alone chapters. Recommendations to Dutch companies have been based on the research findings and our knowledge of the health foods market.

This report takes the base year as 2007 for all data analysis that includes market sizes and sales channels. All revenues are in Euros (EUR) with the exchange rate taken as GB £ 0.79 = EUR 1 (Source: *The Economist*, 1st August 2008). Market revenues are based on approximated retail sales. Years are calendar years, January to December.

2 The UK Market for Health Foods

2.1 Market Indicators

This section gives an overview of the UK health foods market, outlining the major market and consumer trends that affect all product sectors. The regulatory environment for health foods is also discussed in this section. Proceeding sections focus on individual product sectors.

It is not possible to give an accurate size of the UK market for health foods because of two reasons. First, the other health foods sector is non-definable since it encompasses a wide range of food products like cereals, grains, fruits and beverages. Second, there is overlap between product sectors. For instance, organic products are in the functional food, vegetarian and free-from sectors. Combining the market value of individual product sectors would thus lead to double-counting.

Figure 1 allows a comparison of the four leading product sectors, by giving market size and projected market growth rates. It is shown that the organic food market is the largest sector, worth EUR 2.3 billion in 2007. Functional food is the second largest category, worth EUR 1.4 billion. The vegetarian foods market is the third largest, worth almost EUR 1 billion. The market for free-from foods is much smaller, valued just under EUR 400 million.

Figure 1
The UK Market for Health Foods: Market Size of Major Product Categories, 2007

EUR m	Market Size	Growth, 2009-2011
Organic Foods	2,300	0-2%
Functional Foods	1,430	4-6%
Vegetarian Foods	982	4-6%
Free-From Foods	380	10-14%

Note: All figures are rounded *Source: Organic Monitor; Industry Sources*

On comparing market growth rates, the organic food market is projected to show the least market growth. The market has been adversely affected by the economic crisis because of the reduction in consumer spending power. Most industry observers expect the market to rebound as economic recovery gets underway. In the meantime, other product sectors are forecast to show higher market growth rates. The free-from foods sector is reporting the highest growth, partly because it is far less developed than the other sectors.

ii. Market Drivers
These factors are driving growth in all sectors of the health foods market:

Growing consumer awareness of the link between good health and food intake. Health foods are becoming popular as consumers realise that a good diet has a direct effect on their health and general well-being. Awareness of the importance of a healthy diet is rising because of media reports and marketing campaigns by food retailers and manufacturers. Educational campaigns by the government and industry organisations are also responsible.

Rising obesity levels. A report by the Department of Health in July 2006 showed that around 6.66 million men will be obese in 2010.[1] This is an increase from around 4.30 million in 2003. The report also predicts a 1.23 million increase in obese women from in 2003 and 2010.

The rising incidence of obesity is stimulating consumer demand for health foods, especially those that can assist in weight control.

The ageing population in the UK. Like many other western European countries, the UK has an ageing population. The greying population is leading to a rise in health food consumption as consumers look to have longer, healthier lives. Foods with anti-ageing qualities like those with antioxidants have become popular. Such superfoods include berries, tea and fruit juices. Some functional foods are positioned as energy promoters to also cater to this growing market.

Health food campaigns. The British government and Non Government Organisations (NGOs) are encouraging health food consumption because of concerns about the nation's health. The UK has the highest incidence of obesity, heart disease & related illnesses in the EU.

The government is promoting health food consumption because of the implications to the economy: rising government expenditure because of medical bills through the National Health Service (NHS) and loss of tax revenues through disabilities and non-employment. The government is undertaking campaigns like 'Change4Life' and '5 a day'; the latter encourages consumers to eat five pieces of fruit & vegetables per day.

A recent government initiative is the healthy living strategy, which aims to combat soaring obesity rates. In February 2008, the UK government stated it will undertake a EUR 470 million campaign to educate consumers on how to live more healthily. [2]

NGOs like the British Heart Foundation and the Vegetarian Society are also encouraging consumers to eat more health foods. They are also informing consumers of the health risks associated with foods with high salt, high fat, etc.

Mental health and food intake. Apart from physical health, various scientific studies have shown that a healthy diet has a positive impact on mental health. Some studies suggest malnutrition is linked to the rise in number of mental health problems like depression and Alzheimer's disease. Consumers are improving their diets and consuming more health foods, sometimes with nutritional supplements because of this. Some functional foods are positioned as 'brain food' because omega fatty acids are proven to have an effect on mental health.

ii. Market Restraints

The following factors are restraining growth in all sectors of the health food market:

Economic recession impacting health food sales. The UK economy was already in recession when the global financial crisis started in September 2008. Two quarters (2nd and 3rd quarters of 2008) of negative economic growth are having their toll on health food sales. The organic food industry has been the most affected with some sectors reporting negative growth in the latter part of the year.

Other health foods have also been affected. Smoothies, which can be classified as superfoods, are reporting declining sales. Innocent Drinks, the market leader with 70 percent market share, reported a 20 percent drop in sales between June and December 2008.[3] The poor retail environment also led to a number of product withdrawals in the functional food market that year.

Low consumer understanding of health foods. Although consumer awareness of health foods is rising, British consumers are often unable to distinguish between healthy foods and their beneficial health properties. For instance, consumers are generally unaware of Recommended Daily Allowances (RDAs) of nutrients, and cannot always select suitable health foods. Marketing campaigns add to this confusion, with many companies & retailers promoting health benefits of their products. However the nutrient content can sometimes fall short. A Which? survey in 2007 found that food products often overstate omega 3 fatty acid benefits on food packaging; it found that a consumer would have to drink 1.5 litres of one retailer private label pomegranate juice to achieve a beneficial measure of omega 3.[4]

Furthermore, consumers are not always able to link food products to their health benefits. Functional foods are able to achieve this because the products can be promoted on the health benefits of functional ingredients like plant stanols. However, other health foods like organic, whole foods and superfoods cannot make such health claims. Furthermore, since many health foods are marketed on various attributes like organic and vegetarian, the health benefits are not always clear to consumers.

Labelling confusion. The nutritional information on food products is not always easy to understand by consumers. It is not always easy for consumers to compare products directly because of the variation in labelling schemes.

Although all packaged food products must carry nutritional information, the 'traffic light' labelling scheme recommended by the Food Standards Agency (FSA) has not been universally adopted. In some cases, supermarkets such as Tesco use their own schemes, adding to consumer confusion.

Misinformation on health foods. Although general awareness of health foods is rising, the media and the internet are playing both a positive and negative role on consumer education. The media regularly publishes news stories on health foods, sometimes promoting certain foods and debunking others. The internet is a good source of information and misinformation on health foods; websites can provide conflicting information on health foods, especially their health benefits. Such mixed messages have a negative effect on consumer demand.

iii. Consumer Trends

This section gives consumer trends that are relevant for all sectors of the health foods market. The Food Standards Agency's Consumer Attitudes to Food Standards report, published in January 2008, gave various insights into British consumers' attitudes and behaviour towards health foods:[5]

- A large majority (87 percent) of consumers claim that healthy eating is important to them, with a strong feeling that budget is not a barrier and that parents should be strict with their children and make them eat healthily.

- Foods containing fat and sugar continued to be the types of food that most people said they were trying to reduce or avoid consumption of (25 percent and 20 percent respectively).

- Consumer knowledge of eating 'at least 5 portions of fruit & vegetables a day' is increasing; 78 percent of UK respondents answered correctly compared to 71 percent in 2006. Fifty-eight percent of consumers claim to eat 5 or more portions of fruit and vegetables a day.

- Half of UK consumers claims they 'always' or 'usually' to look at the labels on food products they bought for the first time. The amounts of fat, salt and sugar were the key information looked for on labels. The majority of consumers claim that food labels are important in their decision of what food to buy, with half of UK respondents saying labels are very or quite important and a further quarter saying it depends on the type of food. Thus only a quarter stated labels were not very or not at all important.

- The government (35 percent) is viewed as the main provider of information on healthy eating in terms of spontaneous mentions, followed by food manufacturers (15 percent), supermarkets (13 percent) and the FSA (13 percent). When a list of providers was shown the government was still the main source (41 percent), but mentions of supermarkets increased (35 percent). Fewer people (22 percent) see the Food Standards Agency as a source of information on healthy eating compared to food safety (29 percent).

If we assume that demand for health foods mirrors that of organic foods (the largest sector), then most demand is from ABC1 consumers. According to this assumption, consumers living in London, southern England and Wales are the most likely to buy health foods products in the UK. Demand for health foods is assumed to be concentrated in these regions.

2.2 Regulatory Environment

This section gives a general overview of the regulatory environment for all types of health foods. Regulations and standards that are specific to product sectors are covered in the respective report sections.

i. Food Labelling
All health foods are subject to the same controls for labelling and health claims as general food products. The Food Labelling Regulations 1996 give specific details on what information can appear on food & drink products and how it can appear. The regulations and the details can be downloaded from http://www.food.gov.uk/multimedia/pdfs/clearfoodlabelling.pdf

ii. Industry Standards
Apart from organic foods, there are no specific regulations for health foods concerning food production and labelling. Health foods are subject to the same regulations as food products. To some extent, the health food industry is self-regulated through a set of best-practices and industry standards.

The Health Food Manufacturers' Association (HFMA) is highly influential in setting and maintaining industry standards. Set up in 1965, the mission of the HFMA is 'to be the authoritative and responsible voice for the UK natural health products industry, promoting and protecting the interests of our members and of the industry in general.'

The HFMA is widely considered as the voice of the health food industry, represents it in legislative, regulatory and Parliamentary process. It is a membership organisation having about 130 companies that are involved in supplying health foods and nutritional supplements. More details on the HFMA is available on its website: http://www.hfma.co.uk

iii. Nutrition & Health Claims
Health foods are sometimes marketed on their nutrition & health claims. Manufacturers and retailers are sometimes not clear on what claims can and cannot be made. The HFMA has published a document that outlines the legal pitfalls for health claims. This is available from http://www.hfma.co.uk/docs/LegalpitfallsJune07.pdf

More details on the legal framework for nutrition & health claims is given in the functional foods section.

iv. Monitoring & Enforcement
The Food Standards Agency (FSA) is the government watchdog that protects the public's health and consumer interests in relation to food. It was set up in 2000 and provides information to the government and consumers on food safety, nutrition and diet. It also protects consumers by enforcement and monitoring food issues. The FSA is involved in all aspects of food production and marketing, including science, standards, labelling and advertising. More details on the role and the functions of FSA are on its website: http://www.food.gov.uk/

v. Import Regulations
Since the UK is part of the European Union (EU), there are no import regulations for food products coming from the Netherlands. Figure 2 shows that imports of food & drink products have increased by about a third between 2006 and 2008. All product categories have reported increases. There are no separate import statistics for the trade of health foods.

Figure 2
The UK Market for Health Foods: Imports of Food & Drink Products from the Netherlands, 2006-2008

DIV code	2006	2007	2008
01 Meat and Meat Preparations	817	903	955
02 Dairy Products and Birds' Eggs	150	170	219
03 Fish and Fish Preparations	46	67	76
04 Cereals and Cereal Preparations	146	142	172
05 Vegetables and Fruit	1,017	1,107	1,165
06 Sugars, Sugar Preparations and Honey	64	61	80
07 Coffee, Tea, Cocoa, Spices etc.	187	228	289
08 Feeding Stuff for Animals (Excl. Unmilled Cereals)	112	105	137
09 Miscellaneous Edible Products	238	269	319
11 Beverages	151	166	174
22 Oil Seeds and Oleaginous Fruits	26	30	52
41 Oils and Fats	12	13	18
42 Oils and Fats	84	127	233
43 Oils and Fats	26	85	173
TOTAL IMPORTS	3,075	3,473	4,063

Note: All figures are rounded *Source: DEFRA*

2.3 Prospects for Dutch Companies

The Netherlands is renowned as a producer of high quality food products. It is already established as a leading supplier of organic and functional foods to the UK. However, most success has been achieved by large food companies like Unilever and Royal Wessanen. Small-medium sized companies face many challenges in targeting the UK health foods market. Some guidelines to small-medium sized companies are given:

i. Distribution.
The British food industry is highly competitive with food buyers continuously introduced to new products, from home and abroad. The first major challenge is to find an appropriate importer and distributor in the UK. Details of suitable distributors are given for each health food sector.

Dutch companies are not advised to consider setting up sales offices in the UK. The financial investment would not warrant the sales generated, unless companies are dealing in wide product ranges similar to Wessanen and Unilever. Exporters should work with existing importers and wholesalers of health foods.

Since the Netherlands has excellent physical distribution and logistics routes to the UK, existing supply networks for conventional foods are sufficient for health foods.

ii. Sales Channels.
Although the supermarkets comprise most food sales, they are usually the least receptive to new imported products. On the contrary, specialist retailers – health food shops and organic food retailers – are more welcoming to new, especially niche, products.

iii. Marketing.
Marketing investment is critical to the success of imported food products in the UK. A major mistake that food exporters make is they get their products into the UK by entering distribution arrangements, but fail to provide marketing support. Novel health foods in particular, will require marketing campaigns to raise visibility and awareness of the products. Marketing campaigns can be in the form of trade promotions, Point-of-Sales promotions, Public Relations, bonus & discount offers, etc.

iv. Resources.
Prospective exporters should provide resources to start exporting to the UK, and then continue to do so when exports are underway. Importers / distributors will continue to need support in the form of product information, responding to queries and logistics. A common mistake is for exporters to try to use the same domestic marketing & sales team for export markets. Whilst a dedicated export department may not be feasible, dedicated resources should be supplied to facilitate exports.

v. Support Services.
No dedicated support services are available to facilitate exports of health foods to the UK. However, Dutch companies have access to a number of support services provided by the Dutch government and related organisations. Business advice and contacts for food exports is available from the Dutch embassy in the UK. Other organisations that should be considered include Food from Holland, EVD, Holland International Distribution Council (HIDC) and export.nl.

On comparing product categories, all hold openings for Dutch exporters. The most openings are deemed to be in the organic food sector for two reasons. First, the sector is the largest in the health foods market. Second, the organic food industry is highly reliant on imports. Indeed, the Netherlands is already an established source of organic fruits, vegetables, meats and ingredients.

The functional foods market, although the second largest, is considered the least attractive. Only large food companies like Unilever and Friesland Foods are likely to find success with functional foods. If small-medium size companies have functional foods, they are advised to market these products on other attributes like whole foods / organic and target specialist retailers.

The vegetarian foods market is maturing, limiting openings for new entrants. Only the gluten-free segment is attractive in the free-from foods sector. Companies looking to target these sectors are advised to focus on specialist retailers.

In summary, the UK health foods market has openings in all product categories. Prospective exporters should look at developing a Unique Selling Preposition (USP) when introducing their products to the UK. The market is highly sophisticated with many new products launched by domestic and foreign producers. New products in order to be successful need to have a significant edge over existing products.

2.4 Conclusions

The research shows the UK health foods market is reporting high growth. Growing awareness of the relationship between a good diet, health and wellness is stimulating consumer demand. The government is promoting health foods consumption by investing in education campaigns, whilst food manufacturers and retailers are investing in health food ranges. Consumers are however getting confused about health foods because of mixed messages from media reports and marketing campaigns. Misinformation from the internet about the health benefits of food products is also adding to consumer confusion.

Health foods that are clearly positioned in the UK market are therefore likely to achieve most success. In this respect, certified organic foods, free-from foods, vegetarian foods that are labelled 'meat-free' or approved by a recognised organisation, are likely to be more successful than whole foods and superfoods. Functional foods marketed on health claims are also likely to be successful.

There are deemed to be opportunities for Dutch exporters in every health food sector. Although most openings are considered to be in the organic food sector, there are openings in other sectors. However, prospective exporters need to ensure they have some form of product differentiation as stated previously.

A major threat that exporters should be aware of is the emergence of 'local foods'. British consumers are increasingly seeking local foods because of growing awareness of food miles and support for rural communities. Retailers and food processors are trying to source local as much as possible. For instance, Tesco supermarket unveiled a local foods initiative in February 2008. It set a target of selling £400 million (EUR 506 million) of local food in 2008, and £1 billion (EUR 1.27 billion) of local food by 2011 [6]

2.5 References

1. Paola Zaninotto, Heather Wardle, Emmanuel Stamatakis, Jennifer Mindell and Jenny Head (July 2006), *Forecasting Obesity to 2010*, National Centre for Social Research Department of Epidemiology and Public Health at the Royal Free and University College Medical School

2. Eurofood (6 Feb 2008), *UK Launches new Healthy Living Strategy*, Agra Informa

3. Natural Products (January 2009), *Innocent's Sales Fall by £27 million*, Diversified Business Communications

4. Natural Products (December 2007), *Firms Overstate Omega-3 Benefits*, Diversified Business Communications

5. Food Standards Agency (2008), *Consumer Attitudes to Food Standards Wave 8*, Food Standards Agency

6. Talking Retail (18 Feb 2008), *Tesco to Pledge £1bn-worth of Local Food,* Metropolis Business Publishing

3 The UK Market for Organic Foods

3.1 Market Overview and Summary

The definition of organic foods refers to products that are certified and are produced according to European regulations for organic farming and organic foods. It excludes non-certified products and those that do not meet EU regulations.

The UK organic food market, valued at EUR 2.3 billion, is the third largest in the world. The market has reported high growth as consumers become increasingly ethical when buying food. Organic foods are popular because of consumer concern about the environment, animal welfare and their general health & well-being. Most sales are from fresh products like organic fruits, vegetables, meat & dairy products; these four product categories almost two-thirds of total revenues.

The organic food market has enjoyed high growth rates, with revenues almost tripling in value since 2000 when the market was valued EUR 985 million. However, no growth is projected in 2008 because of the economic recession impacting consumer spending power. The level of imports is expected to decline as some sectors of the organic food industry experience oversupply.

There are however ample opportunities for Dutch organic producers. Significant volumes of organic foods are imported from Europe and other regions like North America, Latin America and Australasia. There are deemed to be good openings to supply organic ingredients as well as finished products. Distribution is considered to be a key success factor for this market. Exporters of ingredients are advised to focus on food processors, whilst exporters of finished producers should target specialist retailers. Although the supermarkets comprise 80 percent of organic food sales, it is difficult to penetrate major retailers especially since many have a strong ‘local sourcing’ policy.

3.2 Market Indicators

i. Market Size & Growth Potential [1]
The UK market for organic foods was worth about £2.27 billion (EUR 2.89 billion) in 2007. The market expanded by about 15 percent in 2007, however no market growth is predicted in 2008 because of the poor economic condition. Many consumers are reducing expenditure on premium products because of lowering purchasing power and uncertain economic prospects.

Figure 3 gives the sales breakdown by key product categories.

Figure 3
The UK Market for Organic Foods: Market Size of Major Product Categories, 2007

Revenues	Share (%)	(EUR mil)
Fruit & Vegetables	1004	35%
Dairy Products	606	21%
Meat Products	288	10%
Beverages	159	6%
Others	827	28%
TOTAL	2,884	100%

Note: All figures are rounded *Source: Organic Monitor*

Organic fruit & vegetables have the largest market share and this is because their fresh nature appeals to many consumers. Fruit & vegetables are also an entry point for most consumers that buy organic foods. [2]

Organic dairy is the second largest sector, accounting for 21 percent of total revenues. The leading products are organic yoghurt and milk.

Organic meat products were introduced much later than fruit, vegetables and dairy products in the UK, however high growth rates have resulted in the sector to become the third largest. Organic beef, poultry, lamb and pork are the leading products.

Important products in the organic beverages category are juices, tea, coffee, wine and soya drinks. The other category includes bakery products, baby food, cereals & grains, confectionary, etc.

ii. Market Trends [1,3]

The major factors that are driving growth in the organic food market are:

Rising ethical consumerism. Organic foods are popular because British consumers are becoming increasing ethical in product purchases. Various studies show that consumers buy organic foods because of ethical considerations like the environment, animal welfare and sustainability.

Retailer private labels stimulating consumer demand. Organic foods are marketed under the private labels of all leading British retailers, which actively promote these brands to consumers. Some undertake advertisements in the television and radio for their private labels.

Growing scientific evidence on the health benefits of organic foods. A number of research studies are showing that organic foods are more nutritious than conventional foods. For instance, a July 2007 University of California study found that organic tomatoes have almost twice as much flavonoids as conventional tomatoes. A similar Californian study that year showed that organic kiwi fruit had much higher levels of polyphenols and antioxidant activity than conventional kiwi fruit.

Various European studies have found organic milk has more nutrients than non-organic milk. In 2004, the Danish Institute of Agricultural Science showed that organic milk has 50 percent more vitamin E than conventional milk. In the same year, a study by the Institute of Grassland and Environmental Research of Wales found organic milk to have at least 64 percent more Omega 3 fatty acids than conventional milk. Another study showed organic milk to contain higher levels of Conjugated Linoeic Acid.

The major factors that are restraining growth in the organic food market are:

Economic recession reducing consumer spending power. The UK economy was already in recession when the global financial crisis started in September 2008. Two quarters (2nd and 3rd quarters of 2008) of negative economic growth are having their toll on the organic food industry. Several sectors like organic fruit, vegetables, eggs and meat reported negative market growth in the second half of the year because of the reduction in consumer spending power. Many consumers are shunning organic foods in favour of conventional foods.

High prices deterring product purchases. Numerous studies have shown that the major barrier to higher organic food sales is the high price. Although there is high interest, many consumers feel they cannot afford to pay extra for organic products in spite of the environmental & possible health benefits. Organic products are priced higher than conventional products because organic farming avoids the use of synthetic pesticides, fertilisers and growth promoters.

Supply-demand imbalances affecting industry confidence. Many producers are reluctant to convert to organic practices because the organic food industry has been dogged by supply-demand imbalances. Demand for organic foods outpaced supply until 2001 when several sectors like organic meat & dairy experienced oversupply. After several years of overproduction, supply shortages started again in 2006. Lowering demand led to oversupply once more in the latter part of 2008. Apart from affecting industry confidence, such imbalances also lead to fluctuations in products prices.

Low understanding of organic foods. Various studies suggest that few consumers have a good understanding of what organic production methods are and how they differ from conventional methods. For instance, a survey by the organic food brand Whole Earth in December 2007 found that 61 percent of consumers were unsure what organic means. Low consumer education of organic foods is preventing higher product sales.

iii. Product Trends
The major product trends being observed in the organic food market are:

i. Fair trade.
A growing number of organic food companies are adopting fair trade practices. Some companies are sourcing fair trade ingredients, whilst others are getting their products certified fair trade. Most developments have been in the fresh produce and beverage categories where the number of products certified organic and fair trade have multiplied in recent years. Examples include tea, coffee, juices, bananas, mangoes, and pineapples.

ii. Locally sourced.
British consumers are increasingly seeking locally sourced foods. Consumers are buying local as they want to buy food products with low carbon footprints and want to support rural communities. Retailers are responding to this trend by trying to source local organic foods, whereas producers are increasingly emphasising their organic food origins.

iii. Healthy organic foods.
Many organic food producers are positioning their products as health foods. Since many consumers buy organic foods because of perceived health benefits, companies are looking at fortifying existing products or developing healthy product offerings. For instance, Yeo Valley Organic has developed dedicated lines of probiotic organic yoghurts for children.

iv. Sustainable packaging.
Most organic food companies are looking at sustainable packaging for their products. Companies are looking at compostable, recyclable or re-usable packaging. Most compostable packaging has been used for organic fruit & vegetables.

v. Premium positioning.
Leading organic food companies are developing brands that are positioned at the high-end end of the market. Premium positioning enables producers to justify the high prices of organic foods. Companies that have been successful with this strategy include Green & Black's, Yeo Valley Organic and Duchy Originals.

iv. Consumer Trends [3]
This section gives details on consumers who buy organic foods.

More than half of British consumers buy organic fruit & vegetables. According to the Mintel study in 2007, one in four consumers buy organic meat or dairy products, and one in six buy packaged organic foods. It showed that consumers living in London, southern England and Wales are the most likely to buy organic products in the UK. Those in the ABC1 social groups mostly prefer organic foods, however the gap between AB and C1 consumers is narrowing.

About half of all consumers who claim to buy organic products believe they are too expensive and that they would buy more if they were cheaper. However, price is not the only deterrent; consumers stated that confusion about what organic means and availability / convenience also deter them from buying organic foods. Price is the major barrier for younger family-oriented consumers, whereas information overload is a problem for the over-45s.

Research by Sainsbury's discovered that organic foods were no longer bought by just affluent consumers, with 31 percent of lower income households buying these products. Equally high levels of men and women were buying organic foods, 30 percent and 38 percent respectively. The survey involved polling about 6,500 consumers during 2006.

Research undertaken by the organic food company Whole Earth in December 2007 found that 61 percent of consumers were not sure what the term organic means. The survey of 1,000 consumers also found the terms macrobiotic, sustainable and genetically modified confusing.

A September 2008 survey by Mintel showed that British food shoppers were becoming increasingly ethical, however organic was less important than other considerations. The survey found that 21 percent of consumers look for organic products, whereas 33 percent look for locally sourced foods and 26 percent seek fairtrade products.

Ethical food sourcing is important to consumers in the Southwest of England. A May 2008 survey by the McDonald's restaurant found that 81 percent of consumers stated it was important. The research also found that 83 percent of Southwest residents are more likely to buy from companies which have implemented ethical sourcing policies, with 67 percent looking for proof of this when purchasing food.

The economic recession is leading many consumers to curb spending on organic foods. Ipsos MORI's Retail and Shopper team found that just 31 percent of shoppers surveyed thought buying organic was important, while 48 percent did not care if a product was organic or not. The survey was carried out in October 2008.[4]

Similar findings were made by the internet bank Cahoot. In March 2008, 76 percent of shoppers questioned said that they would be happy to pay up to GB £5 (EUR 6.4) extra for environmentally friendly produce, but this had dropped to 31 percent in August 2008. Almost 25 percent said that the current economic uncertainty made them less likely to consider the environment when doing their weekly shop.[5]

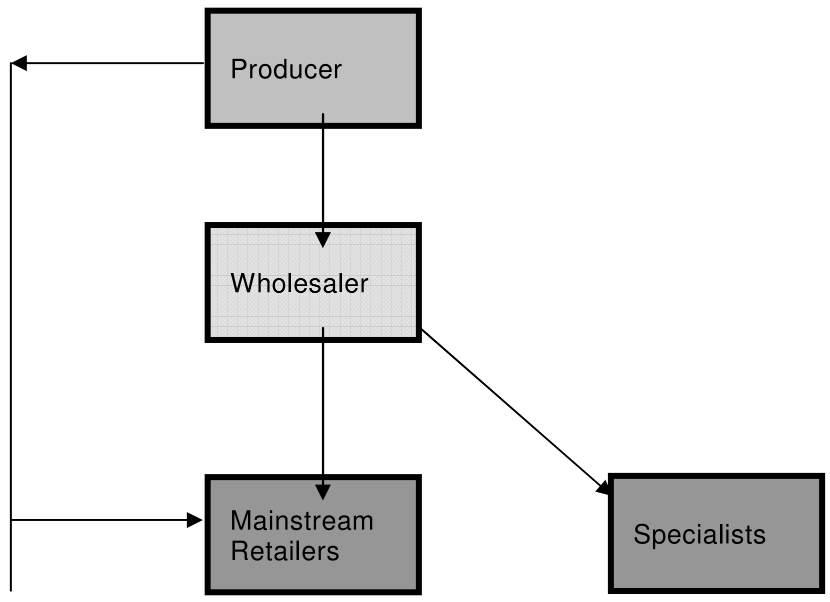
3.3 Supply-Side Analysis

i. Supply Chain

Chart 1 gives the distribution structure for organic foods. Most producers supply large retailers direct and relay on wholesalers to supply specialists. However, there is some variation between product categories. For instance, most organic fruit & vegetables producers supply a pre-packer that sorts and packs the products for the retail trade. Similarly, the supply of organic meats is controlled by large meat processors that arrange for the slaughter of animals, de-boning and packing. In these cases, the pre-packers and meat processors are at the producer level.

The supply chain is shortest for the supermarkets, which prefer to buy directly from producers. Specialist retailers – organic food retailers and health food shops – usually have an additional intermediary, the wholesaler.

Chart 1 The UK Market for Organic Foods: Distribution Structure, 2008



Source: Organic Monitor

Imported organic products come into the UK via dedicated importers or wholesalers. Most wholesalers double-up as importers, in which case they also supply other wholesalers. Supermarkets prefer to source imported organic products directly from importers.

ii. Producer Analysis

Figure 4 lists the leading organic food companies in the UK. Only dedicated organic food companies are listed, companies that do not specialise on organic foods are excluded.

Figure 4
The UK Market for Organic Foods: List of Leading Organic Food Companies, 2008

Leading Companies	Organic Sector
Organic Farm Foods	Fruit & Vegetables
Yeo Valley Organic	Dairy Products
Rachel's Organic	Dairy Products
Eastbrook Farm	Meat Products
Graig Farms	Meat Products
Clipper	Beverages
Alara WholeFoods	Breakfast Cereals
Organix	Baby Food
Doves Farm	Various
Green & Black's	Confectionary
Duchy Originals	Various
Meridian Foods	Various
Wellness Foods	Various

Source: Organic Monitor

Although organic fruit & vegetables is the largest product category, the supply of these products is controlled by large conventional fresh produce companies like MBMG and Primafruit. *Organic Farm Foods* is the only important dedicated supplier of organic fresh produce in the UK. The company is involved in growing organic fruit & vegetables, as well as trading and pre-packing.

Yeo Valley Organic is the leading organic food company in the UK. It reported £145 million sales in 2007; the same year, it became the first-ever organic brand to reach Check-Out / Nielsen's 100 top grocery brands of the UK. The company specialises in organic dairy products with its ubiquitous Yeo Valley Organic brand in retailers across the UK. The company is highly active in marketing its organic products; it sponsors the weather report at a leading national television station, ITN.

Rachel's Organic is the second leading organic dairy. Its product range is similar to Yeo Valley Organic, comprising yoghurts, milk, desserts, cream, butter and ice-cream. The company was formed by the acquisition of a number of dedicated organic dairies by Horizon Organic in 2000. Horizon Organic is now part of WhiteWave Foods, part of the American dairy group Dean Foods. Dairy Crest and Arla Foods are the two largest organic milk suppliers in the UK.

Most organic meats are supplied by conventional meat processors like St. Merryn, Anglo Beef Processing and Lloyd Maunder. *Eastbrook Farm* is the leading dedicated organic meat company. It specialises in fresh and processed pork products. *Graig Farm* specialises in Welsh organic meats. Most organic meats are marketed under retailer private labels, however these two companies have established brand names.

Clipper is a leading organic beverage company, specialising in organic and fairtrade teas. Conventional beverage companies are mostly involved in supplying organic beverages.

Leading firms include Alpro (soya drinks), Grove Fresh (juices), Café Direct (coffee) and London & Scottish (alcoholic drinks).

Alara Wholefoods and Doves Farms are two leading organic breakfast cereal manufacturers. Doves Farms also produces a wide range of other organic foods like biscuits, cakes, snack bars and pasta. Organix is the leading dedicated suppliers of organic baby food; it was acquired by the Spanish multinational Hero in 2008.

Green & Black's is another dedicated organic food company that is part of a larger entity. The organic chocolate company was bought by Cadbury-Schweppes in 2005.

Duchy Originals is one of the leading brands of organic foods in the UK. The company is owned by Prince Charles; it has a comprehensive range of products that include organic biscuits, cakes, meats, dairy products and natural personal care products.

Meridian Foods produces a wide ray of organic foods that include fruit spreads, juices, oils, sauces, butters, snack bars and drinks. The Welsh company is owned by Rasanco, another organic food company that specialises in ingredients.

Wellness Foods has grown by acquiring a number of organic & natural food companies. It has bought Dorset Cereals, Grove Fresh, Stream Foods, Lyme Foods amongst others. The company is projected to generate GB £220 million (EUR 280 million) sales in 2008.

iii. Wholesaler Analysis
This section gives profiles of wholesalers that specialise in organic foods.

Tree of Life is the leading wholesaler of organic & natural foods in the UK. It was formed by the acquisition of Brewhurst Health Food Suppliers and Nature's Store by the Dutch company Wessanen in 2002.

Community Foods is a leading organic food company. Although its main business is importing organic foods, it also has brands like Crazy Jack and Sanchi. It specialises in bulk organic commodities like grains, seeds, dried fruits and nuts.

The Health Store is the oldest and one of the largest distributors of health foods & natural products in the UK. It is a co-operative that is owned by its 450 shop members in UK and Ireland.

Suma Wholefoods is a leading importer and wholesaler of organic & natural products to specialist retailers. *Windmill Organics* is another leading importer and wholesaler of organic products. The company specialises in German products, which it markets under the Biona private label.

Other leading importers / wholesalers of organic products are Infinity Foods, Marigold Health Foods, Essential Trading, Queenswood Natural Foods and Clearspring.

iv. Import Analysis
It is estimated that about 35 percent of organic foods sold in the UK are imported. The proportion of imports varies by product category. The highest level of imports is in the organic fruit & vegetables category, about 80 percent. The high level of imports is because very little organic fruits are produced in the UK, with significant volumes of organic tropical, citrus and exotic fruits coming in.

About 10 percent of the organic dairy products market is supplied by imports. Organic milk, cheese and butter is mainly imported; the main country sources are the Denmark and France. [6]

A third of all organic meat sold in the UK is imported. Organic beef and pork are the main imported products. Organic beef is coming into the UK from Ireland and Argentina, whereas the Netherlands and Denmark are the main import sources of organic pork. [7]

A large number of other organic products are imported. Primary ingredients like cereals, grains, nuts, seeds, herbs, spices are imported for food processing applications as well as the retail market. Large amounts of packaged organic food & drink products are also imported. Imported products include organic baby food, bakery products, seafood, biscuits, confectionary, juices, tea, cereal drinks and frozen foods. [8]

It is worth noting that many of the organic products sold under British brands are made outside the UK. For instance, Organix baby food and Green & Black organic chocolate are made in mainland Europe, however these products are perceived to be British-made because of the brands.

The level of imports has increased steadily since 2005 because organic food production has not been keeping pace with supply. The level of imports is expected to decrease, especially for primary crops like vegetables, milk, and meats, as market growth slow down and some sectors experience overproduction. [3]

3.4 Sales Analysis

i. Retail Structure [9]

The British retail sector is one of the most competitive in Europe. It is characterised by a high level of concentration with major food retailers venturing into non-food retailing. The growth in large supermarket chains is putting pressure on independent retailers with many struggling for survival. Indeed, the number of food retailers is decreasing whilst average store sizes are increasing. Tighter retail margins and the decline of independent operators are making the food retail sector increasingly competitive.

A spate of mergers and acquisitions are making the retail sector more concentrated. In 1999, the American retail giant Wal-Mart acquired ASDA. In 2004, Morrison acquired Safeway to make it the fourth leading food retailer in the UK. Further consolidation occurred in July 2008 when the Co-op Group bought the Somerfield supermarket chain. Apart from increasing market concentration, another major trend is that food retailers are venturing into non-food items like clothes, books, electrical equipment and financial services. Supermarkets are moving into non-food retailing because of higher margins in these sectors and the convenience offered to consumers by large store formats.

ii. Retailer Profiles [9]

Tesco

Tesco is the leading supermarket chain in the UK and the third largest in the world. Since overtaking Sainsbury's in 1995 as the premier British retailer, Tesco has developed a strong international presence. It operates 3,728 stores worldwide with about 2,115 in its home country. It is active in Ireland, Poland, Slovakia, Czech Republic, USA, Thailand, Japan, China, South Korea and India. The company reported sales of £52 billion (EUR 66 billion) in 2008.

Tesco operates store formats under the Tesco Extra, Tesco Metro, Tesco Express, Tesco Superstores, Tesco Homeplus and One Stop banners. The combined market share of these retailers was about 32 percent in 2008. In the 1990s, Tesco expanded into non-food items like financial services, electrical goods, clothing, telecommunications and books. These sectors now comprise almost a quarter of the company's sales.

Tesco stores have about 1,500 organic items that include fresh produce, beverages, dairy products, meat products, cereals & grains and ready-meals. The supermarket is adjudged to have about 28 percent share of organic food sales in the UK. A significant portion of its organic food sales are from its Tesco Organic private label, which has over 400 items. Another private label, Tesco Finest is now the largest grocery brand in the UK, reporting GB £1.2 billion sales.

Tesco revamped its Tesco Organic brand in August 2006. New packaging was introduced for its private label when it started integrating organic products into conventional food aisles. The retailer reduced prices of its Tesco Organic products by about 15 percent in September 2008. The move aims to maintain organic food sales during the economic recession. Tesco started its own box scheme for organic fruit & vegetables in August 2006.

Sainsbury's

Sainsbury's is the third leading food retailer in the UK. It operates 785 hypermarkets, supermarkets and convenience stores in the UK, reporting £19.3 billion (EUR 24.5 billion) sales in 2008. It is estimated to have 16.4 percent share of the retail market. Like Tesco, it has ventured into non-food items and offers financial services, personal care products and it also operates petrol stations. Private labels are a key focus of the retailer, representing about 20 percent of its product sales.

About 1,400 organic products are sold in Sainsbury's stores. The supermarket re-launched its private label for organic products under the So Organic name in September 2005. About 500 organic products are marketed under this private label. Organic fresh fruit & vegetables are some of the most popular, comprising 6 percent of total fresh produce sales in its stores. Sainsbury's has been undertaking television advertisements for its So Organic products since September 2007. The supermarket has about 25 percent share of the organic food retail market.

Sainsbury's has a strong 'buy British' policy for its organic foods. All its organic beef, pork, chicken, milk and eggs are sourced from UK producers. It has also been providing fixed-price contracts to farmers looking to convert to organic practices. It is also using sustainable packaging for its organic fruit & vegetables; 90 percent of its organic fresh produce is in home-compostable, recyclable or re-usable packaging. Sainsbury's is also highly active in marketing fair-trade products; all its bananas, coffee and hot chocolate is sourced from fair-trade producers.

ASDA

ASDA is the second largest food retailer in the UK, operating about 350 retailers of which 21 are ASDA Wal-Mart Supercenters and 243 are ASDA Superstores. It had about 17 percent share of the UK food retail market in 2008. The retailer was acquired by the American retail giant Wal-Mart in 1999. Since its acquisition, ASDA has been involved in price wars by initiating aggressive 'price-rollback' programmes and converting stores to supercenter formats. The supermarket appeals to low-income households because of the competitively-priced products in its stores. Apart from food, ASDA retailers sell books, videos, electrical goods and home items.

ASDA has about 1,000 organic products in its stores, with many marketed under the ASDA Organic private label. Organic products include fruit & vegetables, dairy products, juices, processed foods and cereals. The supermarket is estimated to have about 8 percent share of all organic food sales in the UK. ASDA's price cutting strategies have put it at the forefront of price wars in the organic food retail industry.

ASDA was one of the few retailers to report a positive increase in organic food sales in 2008. The retailer reported a 25 percent sales rise in the third quarter. The increase was attributed to a 10 percent rise in AB household consumers coming to its stores.

Morrisons
Morrisons became the fourth largest supermarket chain when it acquired Safeway in 2004. The purchase strengthened Morrisons market position, since it was previously operating just 125 stores. Safeway had a chain of 480 retailers, although many were closed down after its acquisition. The Morrison chain operates 375 supermarkets, generating £13 billion (EUR 16.5 billion) sales in 2008. Its stores focus on foods and home wares, and have few non-food items like electronics, clothing and furnishings than its retail rivals. Morrison had 11.1 percent share of the food retail market in 2008.

Morrison is not as active in marketing organic foods as Safeway was. Safeway had 400 organic products prior to its acquisition, however Morrison had just a fraction of this number. Since integrating Safeway stores into Morrison formats, most stores have about 300 organic products. Over 100 products are marketed under the Morrison's Organic private label. Organic fresh fruits, vegetables and dairy products are mostly marketed under the private label.

The Co-operative Group (Co-op)
The Co-op is UK' fifth largest supermarket chain, with about 4.4 percent share of food retailing. The group is the largest consumer co-operative with over 2.5 million members. Co-op has 4,300 outlets that are involved in food retailing, financial services, pharmacies, funerals and travel agency. The organisation reported £8.3 billion (EUR 10.5 billion) sales in 2008.

The Co-op acquired the Somerfield supermarket chain for £1.57 billion (EUR 2.0 billion) in July 2008. Somerfield operated 900 supermarkets, however about 60 are expected to be sold when the purchase is completed. The Co-op is also the UK's third largest pharmacy chain, with over 800 stores.

Co-operative food retailers are the most ethical in the UK. The Co-op was awarded the Corporate Social responsibility (CSR) award in 2008. It also won several Green Retailer awards the same year. The retailer is more active in marketing fair trade products than organic foods. Over 200 organic products are in its stores, many under the Co-op Organic private label.

Waitrose
Waitrose is the supermarket chain of the John Lewis Group. The chain comprises 197 supermarkets, mostly located in the south of England. Its stores focus on high-quality foods, appealing to middle-class consumers. Waitrose generated about GB £4 billion (EUR 5 billion) sales in 2008, having 4 percent share of the retail food market. Like other major food retailers, Waitrose has invested in marketing non-food items like clothing and household products in its stores. In November 2008, the retail opened its first overseas store in Dubai.

Although not one of the leading supermarkets in the UK, Waitrose has been very successful in the organic food industry. Of all the supermarkets, it has the highest share of organic food sales to total food sales in its stores. Organic foods comprised about 15 percent of total food sales in its stores. However, its market share is low compared to other supermarkets because of its relatively low number of supermarkets and the small store sizes.

Waitrose have over 2,000 organic products, with over 500 marketed under its Waitrose Organic private label. Organic fruit & vegetables and dairy products are some of its most successful organic products. The retailer has a strong commitment to buying British organic products.

Marks & Spencer
Marks & Spencer is the leading department store chain in the UK with about 600 outlets. Its stores focus on food and clothing, although it has moved into related products like home wares and furniture. It is renowned for its wide range of clothing items, operating as the largest clothing retailer in the UK. Marks & Spencer reported £9 billion (EUR 11.4 billion) sales in 2007.

Although not one of the multiples, Marks & Spencer is an important food retailer as it has in-store supermarkets. Like Waitrose, it targets middle-class consumers with its high quality food range. The supermarket was a relative late entrant in the organic food industry and it took the bold step of marketing organic foods under its Marks & Spencer ‘O’ organic label in 2002. All its organic products were re-launched under this private label with no certification logos present on product packaging.

In 2008 Marks & Spencer had about 300 organic items which included fruit & vegetables, dairy products, bakery products, pasta, and sauces. It stated that fresh fruits, vegetables and salads are its most popular organic foods. All bananas sold in its stores are either organic and / or fairtrade.

Organic Food Shops
There are about 300 dedicated organic food shops in the UK. Nearly all are independent family-owned enterprises and they are mainly concentrated in the south of England. Since these retailers have a strong organic focus, they have a comprehensive range of organic foods. In some stores, over 90 percent of foods are organic. Large stores have organic cafés/ juice bars / restaurants that also serve organic beverages / foods.

There are just three chains of organic food shops in the UK, Whole Foods Market (Fresh & Wild), Planet Organic and As Nature Intended.

Whole Foods Market is the largest organic food shop chain with five stores in London. All but its flagship store in Kensington operate under the Fresh & Wild banner. The Fresh & Wild chain of organic food retailers was acquired by Whole Foods Market for £22 million (EUR 28 million) in January 2004. Of the seven stores initially bought, just four Fresh & Wild stores remain. The retailer plans to open new stores – in large supermarket style formats - under the Whole Foods Market name.

Whole Foods Market is the largest chain of organic & natural food shops in the USA, reporting US $6.6 billion (EUR 5 billion) sales in 2007 from its 280 stores. Apart from the UK, all its stores are in the USA and Canada.

Fresh & Wild stores have organic foods, natural remedies, juice bars and deli counters, whilst Whole Foods Market also has an in-store restaurant and bar / café. A large number of natural & organic products are marketed under private labels: Fresh & Wild Everyday Value, Fresh & Wild Organic, and Whole Treat.

Planet Organic was established in 1995 and has grown to become an important chain of organic food shops. Two new stores opened in September 2008 giving a total of five stores in the London area. The stores have over 9,000 products, with a significant portion of sales from organic products. About 90 percent of its 5,000 food products are organic. Like Fresh & Wild, the stores have deli counters and juice bars.

As Nature Intended is another leading chain of organic food shops. It operates three organic food supermarkets in London and one in Manchester. Its stores house over 5,000 products with organic products representing about 90 percent of total food sales. Apart from organic foods, its stores have nutrition supplements, natural remedies and personal care products.

Health Food Shops
There are about 1,700 health food shops in the UK. They have become important sales channels for organic foods since the 1990s. Mostly organic dry foods like cereals, grains, dried fruits, nuts and seeds are in health food shops. Organic beverages include juices, tea, coffee and herbal drinks, whilst the organic dairy range usually has yoghurt and soya drinks. Few health food shops have fresh organic products like fruits, vegetables and meat products.

The three important chains of health food shops are Holland & Barrett, GNC, and the Health Store. The former two are owned by an American company whilst the latter is a co-operative.

Holland & Barrett is the largest chain with 544 stores in the UK. It reported £264 million (EUR 335 million) sales in 2007. The retail chain was bought by the American company Nature's Bounty (NBTY) from Lloyds Pharmacy in 1997. NBTY is a publicly-listed company that is involved in production, distribution and retailing of vitamins, nutritional supplements and sports nutrition goods.

NBTY bought natural foods & ingredient retailers Julian Graves from Bauger in September 2008. Julian Graves was a rival to Holland & Barrett, reporting £62 million (EUR 79 million) sales in 2007. The stores focus on natural & health foods, rather than organic foods. Organic products include dried fruits, nuts, seeds, snacks and beverages. The 345 Julian Graves stores will be integrated and operated by Holland & Barrett.

Holland & Barrett stores focus on marketing vitamins, minerals and herbal supplements, which comprise about a quarter of its sales. Its stores also have herbal remedies, sports nutrition products, and food products like nuts, dried fruits, beverages and snacks. A small range of organic foods are in Holland & Barrett stores; products include juices, non-dairy drinks, cereals, dried fruits, nuts and seeds.

The Health Store is a co-operative of health food shops in the UK. It was formed in 1932 and has grown to become one of the most important distributors and retailers of health foods. The co-operative has about 450 shop members in the UK and Ireland. A wide range of organic foods are in its stores. Mostly organic long-life products like cereals, grains, nuts, dried fruits and beverages are in its stores.

GNC is a chain of health food shops that specialises in marketing nutritional supplements. It is also owned by the American company Nature's Bounty (NBTY). A small range of organic products are in GNC stores, with organic nutritional supplements the most evident.

ii. Sales Breakdown by Channels

The supermarkets account for most organic food sales with about 80 percent market share. Tesco, Sainsbury's and Waitrose have the highest market share of organic food sales in the supermarket sector. Other important multiples are ASDA, Morrison and Marks & Spencer.

Specialist retailers refer to health food shops, dedicated organic food retailers, and independent retailers. About 10 percent of all organic food & drink product sales are via these retailers.

About 10 percent of organic food sales are from other channels, which mainly refer to home delivery operators, the Catering & Foodservice Sector (CFS), and direct sales by producers. Home delivery operators and vegetable scheme operators like Abel & Cole have become an important sales channel for organic products. Farmer markets and farm shops remain important for fresh products like fruits, vegetables and meat products. A growing number of schools, hospitals, cafés, restaurants and canteens are serving organic foods.

iii. Retailer Trends

The major retailing trends that are occurring are:

Retailer private labels.

The supermarkets prefer to market organic foods under their private labels. All leading supermarkets have private labels for organic foods, which can have up to 600 items.

Domestic sourcing.

British supermarkets are under pressure from industry organisations like the Soil Association to source organic products from within the UK wherever possible. Sainsbury's, Waitrose and Marks & Spencer are the largest advocates of sourcing British organic products.

Rationalisation of product ranges.
The economic recession has led to lowering demand for organic foods. Supermarkets are responding by reducing their organic product ranges, de-listing fringe items and focusing on core organic products.

Low-cost retailers.
The credit crunch is leading more British consumers to do grocery shopping at low-cost retailers like ASDA and discounters like Lidl. This trend has led to these retailers to show an increase in organic food sales at the expense of the large supermarkets. For instance, ASDA and Morrison both reported organic food sales increases in August 2008 compared to the year previous.

3.5 Product & Pricing Analysis

i. Fresh Products
Since a wide range of organic foods are in the market, this section gives five sets of prices: one each for the four leading product categories, and one for other products.

Figure 5
The UK Market for Organic Foods: Typical Retail Prices of Fresh Fruit & Vegetables, December 2008

Product (kg)	GB £	EUR
Tesco Organic Red Apples (4 pack)	1.79	2.27
Tesco Organic Pears (4 pack)	2.19	2.77
Waitrose Organic Oranges (1 kg)	1.99	2.52
Tesco Organic Unwaxed Lemons (piece)	0.32	0.41
Organic Seedless Clementines (500 g)	1.69	2.14
Tesco Organic Limes (4 pack)	0.97	1.23
Organic Ruby Red Grapefruit (piece)	0.99	1.25
Waitrose Organic Raspberries (1 kg)	27.92	35.35
Waitrose Organic Blueberrie (1 kg)s	16.60	21.02
Waitrose Fairtrade Organic Bananas (6 pack)	1.55	1.96
Organic Bananas (1 kg)	2.19	2.77
Waitrose Organic Kiwi Fruit (6 pack)	1.99	2.52
Waitrose Organic Baby Plum Tomatoes (1 kg)	7.96	10.08
Tesco Organic Mango (piece)	1.28	1.62
Tesco Organic Red Grapes (1 kg)	8.73	11.05
Organic Hass Avocado (piece)	0.89	1.13
Organic Pineapple (piece)	2.49	3.15
Organic Pomegranate (piece)	1.29	1.63
Organic Galia Melon (piece)	3.29	4.17
Tesco Organic Strawberry (1 kg)	13.17	16.67

Source: Various Retailers

Figure 5 gives sample retail prices of organic fruit & vegetables, figure 6 gives sample retail prices of organic dairy products, and figure 7 gives retail prices of organic meat products. Prices are from various retailers, and include branded products as well as private label products.

Figure 6
The UK Market for Organic Foods: Typical Retail Prices of Dairy Products, December 2008

Product	**GB £**	**EUR**
Waitrose Organic Skimmed Milk (568ml)	0.54	0.68
Tesco Organic Semi-Skimmed Milk (1.136 litres)	1.03	1.30
Rachel's Organic Whole Fresh Milk (1 litre)	0.99	1.25
Waitrose Organic Wholemilk Natural Bio Yoghurt (500g)	1.29	1.63
Yeo Valley Organic Greek Style Yoghurt (950g)	3.21	4.06
Rachel's Organic Fruit Yogurt Taste Explorers (4x100g)	1.69	2.14
Futura Organic Feta Cheese (200g)	2.79	3.53
Yeo Valley Organic Farmhouse Medium Cheddar (320g)	2.85	3.61
Holy Cow Organic Cottage Cheese (200g)	1.65	2.09
Rachel's Organic Crème Fraiche (200g)	0.99	1.25
Yeo Valley Organic Healthy Crème Fraiche (200g)	0.86	1.09
Tesco Organic Half Fat Crème Fraiche (200g)	0.79	1.00
Rachel's Organic Butter (250g)	1.39	1.76
Waitrose Organic Brandy Butter (200g)	2.49	3.15
Bridel Unsalted Organic Moule Doux Butter (250g)	1.85	2.34
Green & Blacks Organic Vanilla Ice-cream (500ml)	3.90	4.94
Tesco Finest Organic Fairtrade Chocolate Ice-cream (1 litre)	2.14	2.71
Waitrose Organic Strawberry Ice-cream (750ml)	3.79	4.80

Source: Various Retailers

Figure 7
The UK Market for Organic Foods: Typical Retail Prices of Meat Products, December 2008

Product	GB £	EUR
Tesco Organic Beef Rump Steak (300g)	4.80	6.08
Waitrose Organic Roast Beef (70g)	3.49	4.42
Tesco Organic Beef Sirloin Steak (140g)	2.59	3.28
Waitrose British Organic Pork Burgers (340g)	2.99	3.79
Tesco Organic Free Range Pork Chop (250g)	3.79	4.80
Tesco Organic Free Range Pork Stir-Fry Strips (465g)	4.53	5.73
Tesco Organic Lamb mince (400g)	2.63	3.33
Waitrose Organic Welsh Lamb Loin Chops (4 pack)	7.30	9.24
Tesco Organic Lamb Liver (245g)	1.96	2.48
Waitrose Whole Organic Chicken	8.81	11.15
Tesco Organic Chicken Breast Fillets (0.220 kg)	3.85	4.87
Moy Park Organic Breaded Chicken Fingers (125g)	2.75	3.48
Waitrose Organic Turkey Breast (110g)	3.39	4.29
Tesco Organic Traditional Turkey with Giblets (1 kg)	11.95	15.13
Tesco Organic Heritage Turkey with Giblets (1 kg)	12.90	16.33
Duchy Organic Pork, Rosemary & Honey Chipolatas (300g)	3.49	4.42
Tesco Organic 10 Cumberland Chipolata (320g)	2.99	3.79
Waitrose Organic Pork Chipolatas (340g)	3.09	3.91
Tesco Unsmoked Organic Rindless Back Bacon (250g)	2.00	2.53
Waitrose English Organic Smoked Dry Cure Back Bacon (200g)	3.99	5.05
Tesco Organic Smoked Streaky Bacon (240g)	3.22	4.08
Waitrose Organic Baked Ham (90g)	3.49	4.42
Duchy Originals Organic Cured Smoked Ham with Cherrywood (90g)	3.39	4.29
Tesco Organic Wafer Thin Ham (100g)	2.69	3.41

Source: Various Retailers

ii. Other Products
Sample retail prices of organic beverages are shown in figure 8, whilst prices of other organic foods are given in figure 9.

Figure 8
The UK Market for Organic Foods: Typical Retail Prices of Beverages, December 2008

Product	GB £	EUR
Grove Fresh Pure Organic Orange Juice (1 litre)	2.44	3.09
Tesco Organic Apple Juice (1 litre)	1.76	2.23
James White Organic Juice: Mango, Apple & Grapefruit (250ml)	2.59	3.28
Whole Earth Organic Sparkling Lemonade (6x330ml)	3.39	4.29
World Domains Organic Rose Drink (75cl)	2.49	3.15
Clipper Organic White Tea (50g)	1.59	2.01
Waitrose Organic Tea Bags, Lemongrass & Honeybush 20 (40g)	0.99	1.25
Twinings Organic Blend Teabags 80 (250g)	2.79	3.53
Percol Fairtrade Espresso Organic Coffee (250g)	2.59	3.28
Clipper Organic Freeze Dried Coffee (100g)	2.67	3.38
Café Direct Fairtrade Organic Machu Picchu Coffee (227g)	3.49	4.42
Bonterra Vineyards Organic Zinfandel Red Wine 2006 (75cl)	9.99	12.65
Organic Adobe Cahrdonnay White Wine (75cl)	7.49	9.48
Organic Bettili Serenel Rosato Organic Rosé Wine (75cl)	7.29	9.23
Belvoir Organic Ginger Beer (750ml)	1.77	2.24
Duchy Originals Organic Ale (500ml)	1.89	2.39
Brakspear Live Organic Gold Beer (500ml)	1.90	2.41
Organic Utkins UK5 Vodka (700ml)	17.99	22.78
Organic Juniper Green London Dry Gin	17.99	22.78
Organic Highland Harvest Scotch Whisky (70cl)	21.99	27.84

Source: Various Retailers

Figure 9
The UK Market for Organic Foods: Typical Retail Prices of Other Products, December 2008

Product	GB £	EUR
Ella's Kitchen Organic Baby Food: Beef Stew with Spuds (140g)	1.19	1.51
Baby Deli Organic Ready Meal: Hetti's Special Spaghetti (160g)	2.55	3.23
Organix Goodies Oaties Biscuits (5x25g)	1.69	2.14
Lily O'Briens Organic Chocolates (230g)	6.29	7.96
Green & Black's Organic Chocolate 85% Dark (100g)	1.73	2.19
Doves Farm Cereal Organic Chocolate Stars (375g)	2.16	2.73
Duchy Originals Organic Mince Pies (6 pack)	3.79	4.80
Honeyrose Organic Carrot & Walnut Slice Cake (70g)	1.19	1.51
Waitrose Organic Wholemeal Muffins (4 pack)	1.09	1.38
Waitrose Organic Petits Pois (500g)	1.89	2.39
Organic Bio Line Vegetarian Pizza (350g)	3.79	4.80
Organic Dorset Pastry Vintage Cheddar & Caramelised Onion Tart (360g)	4.99	6.32
Seed of Change Organic Bolognese Sauce (500g)	2.26	2.86
Opies Organic Mint Sauce (195g)	1.29	1.63
Simply Delicious Organic Seafood Sauce (180ml)	0.97	1.23
Organic Mixed Nuts (200g)	2.19	2.77
Organic Almonds (175g)	1.99	2.52
Organix Raisin and Sultana Dried Fruits (6x32g)	1.47	1.86
Waitrose Organic Dried Apricots (250g)	1.95	2.47
Crazy Jack Organic Pitted Dried Dates (250g)	1.89	2.39
Virginia Harvest Organic Flax Seeds (175g)	1.99	2.52
Dr Karg Organic Seed Spelt Crispbread (200g)	1.89	2.39
Organic Suma Pumpkin Seeds (500g)	2.89	3.66
Doves Farm Organic Wholemeal Bread (800g)	1.49	1.89
Duchy Organic Multiseed Bread (400g)	1.59	2.01
Organic Stonebake White Loaf Bread (400g)	1.09	1.38
Waitrose Organic Colombian Blacktail Medium Eggs (12 pack)	3.99	5.05
Tesco Organic Eggs Large (12 pack)	3.85	4.87
Carbonell Organic Olive Oil ex Virgin (500ml)	4.25	5.38
Tesco Organic Sunflower Oil (1 litre)	1.99	2.52
Mazola Organic Vegetable Oil (1 litre)	2.99	3.79

Source: Various Retailers

3.6 Regulatory Environment

Since the UK is part of the European Union (EU), organic foods must meet EU regulations for organic farming and food production. These regulations state that food sold as organic must come from growers, processors and importers that are registered and approved by organic certification bodies, which are in turn registered by the Department for Environment, Food and Rural Affairs (DEFRA) or a similar control body in the EU.

Since the Netherlands is part of the EU, organic producers do not have to re-certify their organic products when accessing the UK market. If however, Dutch companies are seeking certification from within the UK, the following certification bodies are approved by DEFRA:

Soil Association Certification	Organic Farmers & Growers
Scottish Organic Producers Association	Bio-Dynamic Agricultural Association
Irish Organic Farmers and Growers Association	Organic Trust Limited
Ascisco	Quality Welsh Food Certification

Organic Food Federation
The Soil Association is the largest certification and inspection body, certifying over 80 percent of the organic foods in the UK. The majority of organic producers and organic food processors are certified by the Soil Association. The Soil Association logo is thus the most widely recognised organic symbol in the UK.

The Organic Farmers & Growers (OF&G) is the second largest certification and inspection body, having about 1,000 members in 2003. Organic Certification, a separate certification body, merged with OF&G in 2004.

Soil Association and OF&G are accredited by the International Federation of Organic Agricultural Movements (IFOAM).

Although various studies have shown that organic foods have a positive impact on the environment, animal welfare and human health, there are strict guidelines on how this can be communicated on product labels, packaging and in marketing. Based on advice from the Committee of Advertising Practice (CAP), the Soil Association has prepared a document that gives guidelines. This document can be downloaded from http://www.soilassociation.org/web/sacert/sacertweb.nsf/e8c12cf77637ec6c80256a6900374463/12eaa3176ea3c093802573d7000ae912/$FILE/What%20we%20can%20say.pdf

3.7 Prospects for Dutch Companies

i. Market Entry Guidelines
When targeting the organic foods market, Dutch companies are advised to work with the leading wholesalers. Most of these companies double up as importers, enabling them to bring in products from the Netherlands and distribute to retailers.

Very few of the supermarkets stated they would be interested in dealing with Dutch companies directly, whereas specialist retailers do not import direct.

ii. Products
There are openings for Dutch companies in all organic product categories. If we look at the

largest product categories, Dutch companies are already exporting organic fruits, vegetables, and pork products to the UK. There are believed to be few, if any, openings in the organic dairy products market since very low volume is imported. Organic milk is mainly imported, mostly from Denmark.

There are also good opportunities for Dutch companies to export processed foods and beverages. Most processed products are made in Europe, although they are marketed under British brand names. Dutch companies could also look at making organic products for private labels. Tesco, ASDA and Morrison are the most receptive to selling imported organic foods under their private labels.

Dutch companies should also considering targeting leading organic food processors in the UK, with organic ingredients. They could export organic cereals, grains, seeds, vegetables, meats to producers of organic bakery products, processed foods, ready-meals, soups, etc.

iii. Key Customers
Although supermarkets represent about 80 percent of organic food sales, Dutch companies are advised to target specialist retailers because of the following reasons:

The supermarkets prefer to give shelf-space to established brands and their private labels, rather than new brands that are not yet established in the UK.

The supermarkets prefer to sell core organic products, whereas specialist retailers like to have a wide product variety.

Organic food shops, especially large supermarket-style formats, are the most keen to experiment with new products / new brands.

The general rule is that new organic products become established in specialist retailers and then work their way up into supermarkets.

iv. Business Risks & Pitfalls
The major business risks & pitfalls Dutch companies should be aware of are:

i. Certification.
It is mandatory for organic products to meet EU regulations for organic foods, otherwise no buyer would be interested.

ii. Local sourcing policies.
This is most pertinent for fresh products like meats, dairy, apples, vegetables. British retailers are keen to source British farm produce wherever possible.

iii. Distribution structure.
Although the UK has the third largest market for organic foods in the world, wholesalers are the key to market success. The supply of imported organic products is controlled by wholesalers like Community Foods and Tree of Life.

iv. High competition.
The UK market attracts a large number of exporters because of large market size and low level of self-sufficiency. Dutch companies should be aware that exporters in countries like the USA, Canada and Australia view UK as a high priority export market. The close business and cultural ties between these countries can give exporters in these countries an advantage over European producers.

v. Marketing & Other Recommendations
The following recommendations are given to Dutch companies targeting the UK organic food market. Dutch companies should invest in marketing to raise visibility and awareness of their organic products in the UK. The following initiatives should be considered:

Above-the-line promotions like advertising in specialist trade magazines like Natural Products, Organic & Natural Business, and Eco Lifestyle. Consumer magazines and newspapers could also be used, however broadcast media is considered too expensive. Advertisements of organic products in wholesaler catalogues to increase visibility to retailers are also highly encouraged.

Below-the-line promotions like other product housing, posters and other point-of-sales activities. Such activities are intended to attract consumers to specific store areas and stimulate demand.

Trade promotions like monetary incentives and consumer promotions. New entrants are advised to work with UK importers on joint-marketing initiatives like in-store tasting sessions; this involves in-store sampling of organic products to generate consumer demand.

Public relations activities. Exhibiting at leading trade shows like Natural Products Europe is important as this enables retailers and distributors to see and taste organic products. The Dutch government could help by providing subsidies and guidance to first-time exporters. This has proven highly successful for exporters in Australia, New Zealand, USA and other countries.

These marketing approaches are relevant for all health foods that are intended for specialist retailers.

vi. Case Study: Dumeco
The Dutch company Dumeco is one of the leading exporters of organic pork to the UK. It is well-established, supplying organic pork products since the late 1990s.

Dumeco supplies organic meats via its subsidiary De Groene Weg, which was established as a separate entity in 1981. Based in Utrecht, it started as a distribution company supplying pre-packed organic meat products to butchers and natural food shops in the Netherlands. In 1991, it bought a slaughterhouse in Hedel and started arranging for the slaughter of animals that were reared according to organic farming principles. It thus became involved in the entire supply chain for organic meat products, taking responsibility for the slaughter of animals, cutting into organic meat products, pre-packing for retailers, and then distribution. In February 2001, Dumeco, the largest meat processor in the Netherlands, acquired the majority stake in De Groene Weg.

Since becoming part of Dumeco, De Groene Weg has raised exports of organic meat products to neighbouring countries like Germany, France and the UK. It has become one of the leading suppliers of organic pork products to the UK because of a strong product range and distribution. It supplies a wide range of organic pork products: fresh pork, ham, bacon and similar products.

By working with Vion UK, a subsidiary of the Vion Food Group, it has access to an extensive distribution network. This distribution infrastructure has enabled it to become a major supplier of organic pork products to ASDA, the second largest supermarket chain in the UK. Organic pork is supplied by subsidiaries like Key County Foods and Vion Food UK.

3.8 References

1. Organic Monitor (2009), *The Global Market for Organic Food & Drink*, Organic Monitor
2. Organic Monitor (2008), The European Market for Ethical Fruit & Vegetables, Organic Monitor
3. Organic Monitor (2009), *The European Market for Organic Food & Drink*, Organic Monitor
4. Birmingham Post (6 November 2008), *Organic 'too dear' as Purse Strings Tighten,* Midland Independent Newspapers
5. The Herald Glasgow (15 September 2008), *Ethical Bank Bucks Trend to Stay Afloat*, Newsquest Media Group
6. Organic Monitor (2006), *The UK Market for Value-Added Milk*, Organic Monitor
7. Organic Monitor (2005), *The UK Market for Organic Meat Products*, Organic Monitor
8. Soil Association (2007), *Organic Market Report 2007*, Soil Association
9. Organic Monitor (2009), The UK Market for Natural & Organic Personal Care Products, Organic Monitor

4 The UK Market for Functional Foods

4.1 Market Overview and Summary

The British Nutrition Foundation (BNF) describes functional foods as foods which contain ingredients that have health promoting properties over and above their nutritional value. This definition includes a very broad range of foods, ranging from foods generated from a particular functional ingredient through to staple foods. Functional foods are sometimes referred to as 'neutraceuticals', however this term is also used to describe nutritional supplements.

Functional ingredients are defined as those that exert a postive effect and which may justify certain health claims. However, these claims must be substantiated according to EU regulations. Some of the most common functional ingredients use din foods include stanols and sterols, probiotics, prebiotics; nutrients such as vitamins, minerals and folic acid.

For the sake of this report, functional foods are defined as foods that are fortified with additional functional ingredients. These fortifications are according to the submissions by the UK Food Standards Agency to the European Union to consideration of inclusion in the Community Register.

Functional foods can be segmented into four product categories:

I. Dairy - milk, eggs, spreads, yoghurts & related dairy products.

II. Cereals - breakfast cereals and cereal bars

III. Beverages – juices, water and soft drinks.

IV. Others: Breads and other bakery products, confectionary, etc.

Products that contain naturally occurring functional ingredients are not included in the definition of functional foods. Thus, products like Birds Eye Omega 3 fish fingers and Young's Chunky Omega fish fillet nuggets which have naturally occurring omega acids are not included. The definition also excludes energy drinks like Red Bull, Lucozade and Gatorade.

Also excluded in the definition of functional foods are soya & non-dairy products like yoghurts, drinks and ice-cream as well as organic products like probiotic yoghurts and juices. Although some of these products are fortified, they are covered in separate sections (free-from foods and organic foods respectively) of this report.

Functional food sales increased by 8 percent to EUR 1.43 billion in 2007. The sector is the largest in the UK health foods market after organic foods. Although the market is sizeable and it continues to show healthy growth, the functional food sector is also the most competitive. This is the only sector that is controlled by multinational food companies. Companies like Danone and Nestlé are spending million on developing and marking functional food products. New entrants will find it difficult competing with such companies, especially since there are few openings in the specialist retailer channel. Companies looking at targeting the functional food sector are advised to focus on novel functional products; ones that can be positioned in other health food sectors like organic, vegetarian and / or free-from are likely to find most success.

4.2 Market Indicators

i. Market Size & Growth Potential
The UK market for functional foods was worth around EUR 1.43 billion in 2007, according to Key Notes.[1] Market growth slowed to 8 percent in 2007 following many years of growth in excess of 20 percent a year. Consumer demand has tailed off partly because of stagnating sales of functional dairy products. Market growth rates of about 6 percent are projected from 2008 onwards.

Fortified dairy products and cereal products comprise most sales. These two categories comprise 97 percent of total revenues. The prominence of the functional dairy category is partly because of extensive product ranges. The wide product range includes yoghurt drinks, milk, spreads and related products. Functional dairy product sales were about EUR 921 million in 2007.

Fortified cereals are the second largest category, worth EUR 462 million in 2007. Breakfast cereals comprise most sales, with 90 percent share of sales. A large number of breakfast cereals are having fortifications, mostly of folic acid.

The functional beverages market is very small, valued at EUR 14 million in 2007. Just a few fortified soft drinks are in the UK market. Other functional foods generated EUR 29 million sales; most sales are from functional bakery products.

ii. Market Trends
The major factors that are driving growth in the functional food market are:

Growing consumer awareness of the link between good health and food intake. Healthy foods - and functional foods in particular - have become popular as consumers realise the importance of a good diet to their health and general well-being. The ageing population in the UK is also responsible for many consumers to ingest functional foods as a form of preventative medicine.

Products targeted at specific health benefits. The functional foods market is expanding as manufacturers design products for consumers with specific health conditions. For instance, cholesterol-lowering products like Benecol are targeted at consumers who are concerned about heart disease and related conditions. Benecol spreads and yoghurt drinks contain plant stanols that are proven to lower bad cholesterol. Similarly, probiotic and prebiotic dairy products are targeted at consumers concerned about digestion health. [2]

Government regulations. The British government is encouraging food manufacturers to fortify their products. For instance, in 2007 the Food Standards Agency (FSA) agreed that 'mandatory fortification' with folic acid should be introduced to either bread or flour to help reduce the number of babies born with neural tube defects, estimated at between 700 and 900 pregnancies in the UK each year. This proposal is controversial, however it shows that the government is taking food fortifications seriously as a solution to health problems.[3]

Novel product launches. A major driver of the functional foods market is new product launches, especially those with novel fortifications. Manufacturers are investing considerably in new product launches; some important ones include:

- Established functional foods brands are launching new flavours and varieties of existing products. For instance, Unilever added pomegranate & raspberry mini drinks to its Flora Pro.Activ range in 2007.

- RJA Foods has introduced a novel range of functional soft drinks under the Pomegreat brand. The drinks contain pomegranate juice and other super fruits like açai, blueberry, and raspberry. They are fortified with vitamins and folic acid.

- Noble Foods introduced Goldenlay Omega 3 eggs in November 2007. By giving hens a specially formulated feed, the eggs contain one third of the recommended daily intake of omega 3 fatty acids.

- Costwold Food Partnership (CFP) launched a range of fortified breads under the I-Bread brand in 2007. The functional breads are fortified with omega acids and fibre.

- Cheese companies like North Downs Dairy are introducing probiotic cheeses. The dairy markets a probiotic cheddar cheese under the Pligrims Choice brand.

- Organic dairy companies, including Yeo Valley Organic and Rachel's Organic, are introducing organic functional dairy products. The former company launched a dedicated range of probiotic yoghurt tubes for children in 2007. [4]

The major factors that are restraining growth in the functional food market are:Lack of categorisation. Unlike other health foods like organic and vegetarian, functional foods are not clearly categorised. It is therefore difficult for consumers to distinguish between functional foods from normal food products. Indeed, many manufacturers launch functional products under existing brand names like Five Alive and Warburton. This lack of categorisation stifles demand since consumers cannot always identify a functional food product.

Growing consumer confusion. British consumers are being inundated with marketing and educational messages about food intake. These messages can lead to misunderstandings and / or consumer confusion. For instance, the 5 a day campaign of the UK government encourages consumers to eat 5 pieces of fruit & vegetables a day. This campaign indirectly discourages consumers to eat processed foods, thus limiting demand for functional foods.

Consumers are also given messages to reduce intake of foods high in sugars, salt and fats. Processed foods albeit fortified, maybe avoided because of this. Consumers may also reduce intake of many dairy products since as they may associate them with high fat.

Increasing product variety and product labelling also confuses consumers. For instance, dairy products are marketed as probiotic, prebiotic, with live cultures, contains omega acids, reduces cholesterol, etc. The consumer cannot always distinguish between these product labels, let alone the health benefits of the products.

Low awareness of health benefits of functional ingredients. Many consumers are unaware of the health benefits of functional foods. Indeed, most consumers do not know the Recommended Daily Amounts (RDA) of specific nutrients. Furthermore, consumers cannot always relate functional ingredients like omega fatty acids and plant stanols to their health benefits.

Marketing difficulties. Manufacturers often find it difficult to market functional foods as they cannot always find the right messages to communicate to consumers. Some like Danone are marketing products like Actimel based on strong brand identities. Others focus on the properties of functional ingredients and their health benefits. Some launch fortified products under existing brand names, thinking this would broaden consumer appeal.

This difficulty in marketing functional foods is stifling product sales. Indeed, it has led to many product failures and market withdrawals:

In partnership with Boost Juice Bars, Nestlé launched a range of functional smoothies in April 2008. The products were axed within 5 months with Nestlé stating it found it difficult to establish (communicate) functionality in the market.[5]

Danone introduced fortified mineral water in 2000, followed by fortified mineral water in 2003. The mineral water range was marketed under the Danone Activ' brand; however, the mineral water range was axed in 2005 because of poor sales.

In January 2009, Coca-Cola was also reported to be struggling with its Diet Coke Plus. The functional soft drink had been de-listed by some British supermarkets.[6] In its home market, the USA, Diet Cola Plus has been criticised by the Food & Drug Administration (FDA) which stated the product is 'misbranded'. The problem is believed to arise because of the way the product is marketed to consumers.

Economic recession.
The economic recession and reduction in consumer spending power has created a harsh retail environment in the UK. Although it is too early to give any market data, there are signs that some functional food sales are stagnating or even declining.

iii. Product Trends
The major product trends in the functional foods market concern fortifications; these include:

Omega fatty acids. A popular fortification since 2005 has been omega 3 and 6 fatty acids, which are linked to positive benefits to the heart, mental health and cancer avoidance. Since 2006, companies have been trying to replace fish oil sources of omega 3 fatty acid with plant sources. A reason is that fish oil sources are not considered environmentally sustainable.

Brand extensions. A popular strategy in the functional foods market is for manufacturers to launch new products under existing brand names. Manufacturers like Unilever and McNeil Nutritionals continuously launch new products under the Flora Pro.Activ and Benecol brands. This strategy has enabled the Benecol brand to successfully expand from yoghurt drinks to yoghurts, dairy-free drinks, cheese and spreads.

Manufacturers are using functional ingredients to address specific health conditions. Functional Ingredients magazine lists a number of conditions with examples of the functional food ingredients used to address those conditions. Some of the most common ones are:

Anti-ageing / degenerative diseases: whey protein preserves lean muscle in elderly individuals.

Cardiovascular health: Soy protein, sterols, fish oil, policosanol, vitamin E, garlic and others help lower cholesterol.

Cognitive health: Phosphatidylserine (PS) speeds signal transmission among neurons improving learning, memory, concentration and attention in older people with evidence of memory impairment. It is found in meat, fish and barley. Also fish oils and the B vitamin choline.

Diabetes: Soluble fibres such as psyllium, flax, gums and oats form gels in the intestine and slow the rate of nutrient absorption, which helps reduce blood-sugar levels after meals are consumed. Insoluble fibres from whole grains increase bulk and slow down the movement of matter through the bowel. Both fibre types prolong gastric emptying and bind cholesterol to limit its absorption. Dietary fibre also inhibits the activity of alpha-amylase and postpones the release of glucose from starch. A third fibre type, resistant starch, resists digestion in the small intestine, is fermented like some dietary fibres to provide long-term energy and can increase insulin sensitivity in healthy people.

Digestive health: Primary ingredients include probiotics, prebiotics, enzymes, fibre, ginger, psyllium and green foods.

Joint health: Glycoaminoglycans (GAGs) that comprise the non-collagen proteins, predominantly glucosamine and chondroitin.

Sports: Whey proteins, carnitine, co-Q10 and ribose. These have applications beyond mere sports. Carnitine optimises performance, delays the onset of fatigue and improves recovery through a detoxification process. Coenzyme Q10 helps energy production as well as having antioxidant properties. Ribose is a naturally occurring sugar which is seeing growth in the flavoured drinks sector.

*Weight management:*The DHA and EPA Omega 3 fatty acids deriving from fish oils, algae and krill, can activate enzymes that boost fat burning, suppress appetite and boost the feeling of satiety.

iv. Consumer Trends

The University of Reading conducted a study into consumer attitudes towards functional foods in 2006. Two focus groups were taken in which consumers revealed both negative and positive attitudes towards functional foods. Positive views included:[7]

Functional foods may be useful for those with deficiences in their diets or those with food intolerances, such as lactose intolerance.

Functional foods would be chosen in preference to taking pills or medication for an illness or nutrient deficiency.

Functional foods could contribute essential nutrients to the diets of those who are often too busy to prepare meals from scratch, especially those in the younger age groups.

The focus group participants also held some negative attitudes towards functional foods:

There is no need to supplement a diet with nutritionally enhanced products if people are already eating a balanced diet.

There was a perception that functional foods were too expensive to add to regular food shopping. Even though participants were postive about the taste, they felt that the additional cost was too high.

Participants were not enthusiastic about the enrichment of foods that were already considered to be healthy, with concerns about the alteration of conventional foods to make them healthier. Participants preferred their food to be as natural as possible, without additives.

There was also a perception that companies may exaggerate health claims to sell products and participants in the groups were also concerned about nutritional benefits in relation to information and portion size.

Other important findings of consumer behaviour towards functional food include:
Müller re-launched its Vitality yoghurts with different fortifications in July 2008 after research showed that consumers found the inclusion of omega 3 in yoghurts confusing. Omega 3 fatty acids were replaced with prebiotics and probiotic cultures in Vitality yoghurts. Research showed that omega 3 was not a key requirement for consumers to buy Vitality yoghurts and they were more aware of other foods to obtain their intake of omega 3.[8]

The British Nutrition Foundation was involved in a study on ‘Uptake & attitudes to functional foods in Europe’ in 2007. The research involved polling about 6,000 consumers in six countries: the UK, Germany, France, Italy, Poland and Portugal. About half of consumers (38 percent) look to lower cholesterol when consuming functional foods. Thirty-eight percent cited ‘to control blood sugar’ and 36 percent cited ‘to reduce weight’.[9]

IGD research in 2007 found that 65 percent of UK consumers believed that certain foods have health benefits that go beyond basic nutrition, which can reduce the risk of developing some ailments and conditions, just like a medicine. However fewer consumers believe that certain foods can treat (54 percent) or can cure (40 percent) some ailments and conditions, just like a medicine. Only a third of consumers claimed to have ever bought a functional food like Yakult, Benecol, Flora Pro.Activ, etc. [10]

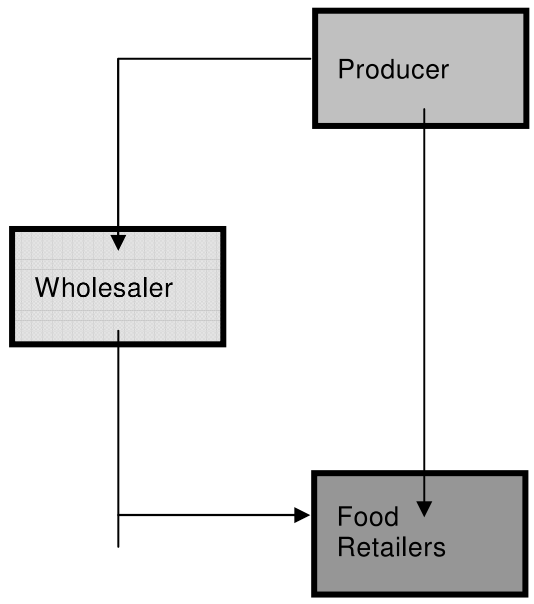
A Which? survey in 2007 revealed that food companies often overstate the benefits of omega 3 fatty acids in their products. Results of the consumer group’s survey showed that shoppers were 45 percent more likely to buy a product that claims to be high in omega 3 than the same food without a claim. This has led to a raft of products being introduced that make omega 3 claims by either having added omega 3 and / or products overstating the level of omega 3 in products. [11]

Some 97 percent of British consumers buy foods with an added health benefit, according to Nielsen in 2007. The research company polled 1,011 consumers and found that whole grain or high fibre foods were bought by 83 percent of respondents. Probiotic yoghurts had been purchased by 84 percent of respondents, and 80 percent stated they had bought cholesterol-lowering foods. The 3 percent of consumers who did not buy any functional foods, stated they did not believe the health claims of manufacturers. [12]

4.3 Supply-Side Analysis

i. Supply Chain
The supply chain for functional foods is shown in chart 2. As shown in the illustration, the majority of functional food products go directly from manufacturers to supermarkets.

Chart 2 The UK Market for Functional Foods: Distribution Structure, 2008



Source: Organic Monitor

Multinationals are mainly involved in the production of functional foods. Apart from bakery products, the supply of functional foods across product categories is controlled by large food companies like Danone, Kellogg's and Unilever.

Wholesalers play a very small role in the supply of functional foods. Wholesalers are only important for distribution to small independent retailers and specialist retailers. About 90 percent of functional food sales are from supermarkets, which are generally supplied direct by manufacturers. Imported products usually come into the UK via sales office of large food companies, rather than dedicated importers.

ii. Producer Analysis
The leading functional food company in the UK are listed in figure 10. It is shown that most companies are in the functional dairy category.

Figure 10
The UK Market for Functional Foods: List of Leading Functional Food Companies, 2008

Leading Companies	Sector (s)
Danone	Dairy Products
Unilever	Dairy Products
McNeil Nutritionals	Dairy Products
Müller Dairy	Dairy Products
Nestlé	Dairy Products & Cereals
Noble Foods	Dairy Products
Kellogg Marketing & Sales Co.	Cereals
Quaker Oats	Cereals
Warburton	Bakery
Allied Bakeries	Bakery
PepsiCo	Soft Drinks

Source: Organic Monitor

The French company *Danone* is one of the world's largest food companies, specialising in dairy products, bottled water, biscuits and snacks. The principal business of its UK office is the import and distribution of dairy products to supermarkets. The company has high market share in the functional dairy products market with its Activia and Actimel brands.

Activia is a range of probiotic yoghurts and Actimel comprises probiotic yoghurt drinks. Launched in 1998, Actimel is the leading brand of probiotic yoghurt drinks. Danone also markets fortified yoghurts (with vitamins and calcium) under the Shape brand. It also used to market a range of cholesterol-lowering yoghurt drinks under the Danacol brand, however the brand was withdrawn in 2007. Another product failure has been Danone Activ, the first functional bottled water in the UK market. Fortified with calcium, the mineral water was launched in 2001. Flavoured variants were launched in 2003, however the brand was discontinued in 2005.

Unilever has the leading brand of functional foods, Flora Pro.Activ. The Anglo-Dutch company operates in the food & beverage and personal care industries. It owns several household names of food & beverages that include Colman's, Hellmann's, Knorr, Olivio, PG Tips, Pot Noodle and Wall's. The multinational entered the functional food market in 2000 when it launched Flora Pro.Activ cholesterol-lowering margarine. Its success led to the launch of similar products like drinks, yoghurts, olive oil-based spreads and related spreads. More details of Flora Pro.Activ are given in the case study at the end of this report section.

McNeil Nutritionals is a subsidiary of the multinational company Johnson & Johnson. McNeil Nutritionals is licensed to market and sell Benecol products in the UK. The products are developed by the Finnish company Raisio Group containing cholesterol-lowering plant stanols. The first product, Benecol margarine was launched in 1999. The brand also has olive-oil spread, low-fat yoghurts, dairy-free drinks, light cream cheese, and yoghurt drinks.

Müller Dairy is the UK subsidiary of the German company of the same name. The company's Müller brand is the market leader in branded yoghurts and chilled desserts. It entered the probiotic yoghurts market by launching Müller Vitality in 2000. Müller Vitality yoghurt drinks were added to the range in 2002.

The Swiss-based multinational *Nestlé* is one of the world's largest food manufacturers, owning a diverse group of brands like Nescafé, Nesquick, Perrier, Milky Bar, Quality Street, Ski and Herta. It has a small range of functional foods, mainly in the breakfast cereals and dairy categories. It markets breakfast cereals like Cheerios and Shreddies as functional cereals. Fortified cereal bars include Cheerios and Fitnesse. Nestlé also markets functional yoghurts under the Munch Bunch Drinky brand.

Noble Foods is the largest egg company in the UK. It launched the Columbus egg in 1998. The eggs contain more polyunsaturated and omega-3 and less saturated fatty acid because of a special vegetarian diet. It also markets functional eggs under the Goldenlay Omega 3 brand.

Kellogg Marketing and Sales Company is the UK subsidiary of The Kellogg Company, an American-based producer of cereals and convenience foods. The UK company produces and markets a wide range of food products under the Kellogg's brand. Kellogg's is the leading brand of functional breakfast cereals and cereal bars. A number of fortified cereals are marketed under brand names like Special K, All-Bran and Optivita. Kellogg's Nutri-Grain is the leading brand of fortified cereal bars in the UK. A large number of Kellogg's products are fortified with calcium, iron and vitamins.

Quaker Oats is owned by the US soft drinks company PepsiCo. It markets functional cereals under the Oatso Simple brand, which is fortified with vitamins and minerals. It also markets Cheweee cereal bars which have added vitamins, iron and fibre.

Warburtons is one of the largest bakery companies in the UK. It markets a range of functional breads under the Good Health and Healthy Inside brand names. These products contain added fibre, calcium, iron, vitamins and omega fatty acids.

Allied Bakeries is another producer of functional breads. The company markets a range of breads under the Burgen brand. Its functional breads are fortified with soya, linseed, folic acid, vitamins & minerals. The company also produces Kingsmill bread with omega-3.

Tropicana is a subsidiary of the multinational PepsiCo. It is present in the functional beverages market with its Tropicana Pure Premium Essentials range. The product range is being reduced as it withdraws unsuccessful products. The range had just three products in 2008: Essentials Multi-Vitamins, Essentials Calcium and Essentials Fibre.

iii. Wholesaler & Import Analysis

Wholesalers are only important for distributing functional foods to independent food retailers and specialist retailers. No wholesalers specialise in functional foods, as companies do for other health foods. Wholesalers are usually region-specific as opposed to product-specific; they carry a wide range of packaged food & drink products, covering specific area.

It is not possible to ascertain the level of imports of functional foods in the UK. This is because most production is by large multinationals which have various production bases in Europe. Retailer private label products can also be produced at various European locations. For instance, ASDA's private label functional yoghurts are made in the UK, France and Austria.

No companies specialise in importing functional foods. Imported niche brands are usually imported by health & natural food wholesalers like Tree of Life and Juniper Fine Foods.

4.4 Sales Analysis

i. Retailer Profiles

Tesco

Tesco has products across functional food categories. In the functional dairy category, its yoghurt range includes Benecol, Danone Activia, Flora Pro.Activ, Müller Vitality, Onken, Yakult as well as its probiotic range of Healthy Living yoghurts. The spreads range includes Tesco's private label product Enriched Olive Spread, which contains folic acid and vitamin B12. Other functional spreads that have cholesterol reducing properties include Benecol, Flora Omega 3 Plus, Flora Pro.Activ and its private label product T Healthy Living Cholesterol Reducing spread. The supermarket also has Flora Pro.Activ milk and the Goldenlay Omega 3 range of eggs.

A comprehensive range of fortified ready-to-eat breakfast cereals are also in Tesco stores. Functional products include Dorset Cereals Super High Fibre cereal and the Kelloggs Optivita range which has added oat beta-glucan. Kellogg's Special K Sustain with extra folic acid is also in its stores.

Other functional foods in Tesco stores include cereal bars like Kellogg's Nutri-Grain, Special K and Harvest Chewee bars; functional bread like Warburtons All in One and Healthy Harvest. The former bread has added fibre and wheatgerm, whilst the latter has extra fibre and calcium. A number of functional beverages are also present. Tropicana Essentials and Coca Cola Diet Plus are the main products.

Sainsbury's

A wide range of functional foods are in Sainsbury's supermarkets. In the functional dairy category, it has drinks, yoghurts and spreads of leading brands like Benecol, Actimel, Activia, Flora Pro.Activ, Müller Vitality, and Yakult. Some functional dairy products are marketed under private labels. For instance, Sainsbury's Kids yoghurts contain Friendly Balance probiotic ingredients. Functional milk products include Flora Pro.Activ and functional eggs include Goldenlay Omega 3.

Sainsbury's also has wide range of functional breakfast cereals that include Kellogg's Optivita, Kellogg's Special K Sustain and Dorset's Super High Fibre. Some fortified breakfast cereals are marketed under private labels. For instance, the Sainsbury's Healthy Balance cereals have added vitamins and iron. A number of functional cereal bars are also present; brands include Kellogg's Nutri-Grain and Harvest Chewee. The Sainsbury's Multigrain private label has cereal bars fortified with vitamins and iron.

Other functional foods include breads and soft drinks. Warburtons, Burgens and Kingsmill functional breads are present as well as Tropicana Essentials and Coca Cola Diet Plus soft drinks.

ASDA

ASDA has a comprehensive range of functional foods. It has a wide range of functional dairy products that include all the major probiotic drinks and yoghurts of Benecol, Actimel, Activia, Flora Pro.Activ, Müller Vitality, Yakult as well as private labels. Some products, like probiotic yoghurts, are marketed under the ASDA private label. Great Stuff is ASDA's private label for children's healthy foods. It markets probiotic yoghurts, probiotic drinks and a cholesterol reducing spread under this brand. Other functional spreads include Benecol, Flora Pro.Activ and St. Ivel's Utterly Butterly with Omega-3.

A number of functional breakfast cereals and cereal bars are also in ASDA stores. Products include Kellogg's Optivita Nut Oat Crisp, Kellogg's Special K Sustain, Weetabix Oatibix Flakes and Kamut based cereal with added Omega-3. Functional cereal bars include Kellogg's Nutri-Grain and Harvest Chewee. A number of functional cereal bars are marketed under ASDA private labels. The ASDA Good For You private label has prebiotic fortified cereal bars, the ASDA Fruit & Grain and Vitality private labels have cereal bars fortified with vitamins & iron.

A number of functional breads are also present. Products include Kingsmill Healthy Loaf with Omega 3 and Burgen Soya & Linseed. Some functional beverages like Tropicana Essentials are also in ASDA stores.

Morrison
Morrison also has a wide range of functional foods, similar to the aforementioned food retailers. Most products are in the functional dairy category, with a number o yoghurts, drinks and spreads present. Brands include Flora Pro.Activ, Actimel, Activia, Yakult, Benecol and Müller Vitality. Some functional dairy products are marketed under Morrison private labels.

The leading brands of functional cereals and cereal bars are also the most popular in Morrison stores. They include Kellogg's Optivita, Kellogg's Special K Sustain, Weetabix Oatibix breakfast cereals and Kellogg's Nutri-Grain cereal bars.

A number of functional breads of Warburtons and Burgen are present, whilst functional soft drinks are rare.

Waitrose
Waitrose has a large number of functional dairy products. All leading brands of functional yoghurts, drinks, spreads are present. Only functional yoghurts are marketed under the Waitrose Fat-free private label; the range comprises a number of fortified fruit yoghurts. Functional eggs include Intelligent Eating omega 3 rich free range eggs, and Flora Pro.Activ is the main functional milk.

The supermarket has a broad selection of functional breakfast cereals and cereal bars. Apart from the leading brands of functional cereals, it markets some fortified cereals under Waitrose private labels. The leading brands of functional breads and soft drinks are also present.

Specialist Retailers
Organic food shops and health food retailers tend to have few functional foods. Free-from and / or organic functional products are highly evident; these include probiotic organic yoghurts, fortified soya drinks and fortified breakfast cereals. However, products of the leading manufacturers like Danone, Unilever and Müller are not present.

iii. Sales Breakdown by Channels
It is estimated that about 90 percent of functional food sales are from the supermarkets. The domination of the multiples is because the product ranges of large manufacturers are geared towards the supermarkets. Manufacturers like Unilever, Danone and Kellogg's are mass-producing functional foods for the supermarkets.

Specialist retailers have about 5 percent market share. Niche brands and products are mainly in organic food shops and health food retailers.

About 5 percent of sales are from other channels. Most sales are from the catering & foodservice and small retailers. Small food retailers, mainly independent, have functional foods of the leading brands. These products are also in restaurants, cafés, hotels and factory canteens.

iii. Retailer Trends
The major retailing trends that are occurring are:

Crowded shelf-space for functional dairy products. The large number of functional dairy products makes it very difficult for new brands to come into the functional dairy products category. Indeed, most new product launches in this sector have been from existing brands like Müller and Flora Pro.Activ as opposed to new entrants.

Competition from competing health foods. Manufacturers are marketing their functional foods on their health benefits; this is putting them in direct competition with other health foods like organic, vegetarian and free-from. Such products compete for the same shelf-space as functional dairy products, further increasing competition for retail space. [13]

Low success of private labels. Unlike organic and vegetarian foods, supermarkets have had low success with private labels for functional foods. Indeed, few retailers have ventured outside functional dairy products. Some like Sainsbury's have functional breakfast cereals and cereal bars, however the product ranges are small. The large amount of R&D and food safety testing required for novel functional foods is a barrier for retailer private labels.

Specialist retailers seek niche products. The low range of functional foods in specialist retailers is because they seek niche products, particularly those that are not in supermarkets. Since multinationals dominate the functional foods market, few products are designed for this retail segment.

4.5 Product & Pricing Analysis

Figure 11
The UK Market for Functional Foods: Typical Retail Prices of Dairy Products, January 2009

Product	GB £	EUR
ASDA: Probiotic Natural Yoghurt (500g)	0.78	0.99
ASDA Cholesterol Reducing Spread (500g)	2.98	3.77
ASDA Great Stuff Kids Probiotic Yogurt Drink, Strawberry (4x100g)	0.98	1.24
Benecol Yogurt Drink (6x70g)	3.29	4.17
Benecol Olive Spread (250g)	2.49	3.15
Benecol Low Fat Yogurt (4x125g)	1.99	2.52
Danone Activia Blueberry Layer Yogurt (4x125g)	1.58	2.00
Danone Activia Intensely Creamy Zesty Yogurt (4x120g)	1.98	2.51
Danone Actimel Multifruit Drink (8x100g)	2.64	3.34
Emmi Minicol Cheese (195g)	1.99	2.52
Flora Pro.Activ Cholesterol Lowering Strawberry Drink (4x100g)	2.39	3.03
Flora Pro.Activ Assorted Low-Fat Yogurt (4x125g)	1.80	2.28
Flora Pro.Activ Semi Skimmed Milk (1 litre)	1.33	1.68
Flora Pro.Activ Omega 3 Plus Spread (500g)	1.61	2.04
Goldenlay Omega 3 Free Range Eggs (Boxof 6)	1.64	2.08
Healthy Living Cholesterol Reducing Red Yogurt Drink (4x100g)	1.26	1.59
Healthy Living Probiotic Assorted Yogurt (4x125g)	2.48	3.14
Müller Vitality Rhubarb & Plum Drink (6x125g)	2.48	3.14
Müller Vitality Vanilla Yogurt Drink (6x100g)	1.99	2.52
Müller Healthy Balance Corner Yogurt (6x160g)	2.96	3.75
Munch Bunch Drinky Plus Probiotic Drink, Banana (6x90g)	1.99	2.52
Munch Bunch Drinky Yogurt, Strawberry (6x90g)	1.99	2.52
Onken Bio Pot Cherry Yogurt (500g)	1.24	1.57

Sainsbury's Be Good To Yourself Red Fruit Yoghurts, (4x125g)	1.25	1.58
St Ivel Utterly Butterly Omega 3 Butter(500g)	1.34	1.70
Yakult Fermented Milk Drink (7x65ml)	2.68	3.39

Source: Various Retailers

Figure 11 gives sample retail prices of functional dairy products. Product prices are arranged according to brand name.

Figure 12 gives sample retail prices of other functional foods & beverages. The most important products are breakfast cereals, cereal bars and breads. Products are arranged by product category.

Figure 12
The UK Market for Functional Foods: Typical Retail Prices of Other Products, January 2009

Product	GB £	EUR
Burgen Soya and Linseed Bread (800g)	1.17	1.48
Kingsmill 50/50 Healthy Loaf White Bread with Omega 3 (800g)	1.39	1.76
Warburtons All in One Medium Loaf Bread (600G)	0.69	0.87
Warburtons Healthy Inside Prebiotic Bread (400g)	0.79	1.00
Kellogg's Optivita Berry Cereal (375g)	2.79	3.53
Kellogg's Special K Sustain Cereal (350g)	2.78	3.52
Sainsbury's Healthy Balance Cereal, Crispy Rice & Wheat (500g)	1.78	2.25
Weetabix Oatibix Flakes Cereal (550g)	2.00	2.53
Weetabix Weetos Cereal (500g)	2.75	3.48
ASDA Good For You Cereal Bar, Apple & Raspberry (6x25g)	0.86	1.09
ASDA Fruit & Grain Cereal Bar, Mixed Fruit (296g)	1.46	1.85
Kellogg's Special K Cereal Bars (6 pack)	1.68	2.13
Kellogg's Blueberry Nutri-Grain Cereal Bars (8x37g)	2.17	2.75
Kellogg's Nutri-Grain Elevenses Chocolate Chip Cereal Bars (6x45g)	2.29	2.90
Sainsbury's Multigrain Maple Cereal Bar, Be Good to Yourself (6 Bars)	1.36	1.72
Coca Cola Diet Coke Plus Vitamins Drink (4x350ml)	0.98	1.24
Coca Cola Diet Coke Plus Antioxidant Drink (4x350ml)	0.98	1.24
Tropicana Essentials Calcium Smooth Style Orange Juice (1 litre)	1.88	2.38

Source: Various Retailers

4.6 Regulatory Environment

i. Health Claims
Functional foods are often marketed on the health claims, which are usually based on their fortified ingredients. Health claims are statements about the beneficial effect of a food or its ingredients on your health. The positive effects of functional ingredients must be substantiated by scientific research to justify health claims. More details on is given in Article 13 of the EU Nutrition and Health Claims Regulation.

In December 2006, the European Commission passed a new EU regulation (1924/2006) on Nutrition and Health Claims. The regulation was implemented in the UK six months later.

The regulation deals with health claims describing or referring to the role of a nutrient or other substance in the growth, development and functions of the body based on generally accepted scientific evidence and well understood by the average consumer. It specifies that health claims can only be permitted if the labelling also includes a statement indicating the importance of a varied and balanced diet and healthy lifestyle and the quantity of food and pattern of consumption required to obtain the claimed beneficial effect. Claims that a food can treat, prevent or cure a disease (medical claims) are still prohibited.

More details, including guidance, on nutrition and health claims on foods is on the downloadable document:
http://www.food.gov.uk/multimedia/pdfs/ec19242006complianceguide.pdf

Non-specific benefits of a food for overall good health or health related well-being may only be made if accompanied by a specific approved health claim. In the UK, the Food Standards Agency has compiled a list of health claims pertaining to specific food categories. These categories are:

- Carbohydrates, Diets, Fats, Fibre, and Foods and Beverages

- Minerals and other

- Probiotic Ingredients, Proteins, and Vitamins

- Plant substances with no known medicinal use in the UK

- Plant substances also with medicinal use in the UK

The EU legislation provides for the compilation of a Community Register of health claims which will be adopted in January 2010. Each member state has submitted lists of claims to the EU for consideration for inclusion in the Community Register. Claims eligible for consideration are:

> Those describing or referring to the role of a nutrient or other substance in growth, development and the functions of the body

> Psychological and behavioural functions

> Slimming, weight control, a reduction in the sense of hunger, an increase in the sense of satiety and the reduction of the available energy from the diet

However, in December 2008 the European Commission issued a new Mutual Recognition Regulation (EC no 764.2008), which comes into force on 9th July 2009. This allows member states to sell goods that are legally marketed in one member state in another. This was outlined in a report sent to all member states in December 2008 which stated that no further harmonisation of bioactive and botanical ingredients used in food and nutrional produces is necessary as new laws, including those for Nutrition and Health Claims (as outlined above), Fortification, Novel Food and the Mutual Recognition ruling, should be sufficient. This has been welcomed by the European Federation of Associations of Health Product Manufactuers (EHPM).as the report recognises the importance and variety of the use of ingredients other than vitamins and minerals in food and supplements across the EU.

ii. Novel Foods
Functional foods are also covered by Novel Foods legislation. Novel foods are defined by Regulation (EC) No 258/97, which came into force in January 1997. A novel food is defined as a food or food ingredient that does not have a significant history of consumption within the EU before 15 May 1997.

These regulations apply to the following food products:

- Foods and food ingredients with a new or intentionally modified primary molecular structure

- Foods and food ingredients consisting of or isolated from micro-organisms, fungi or algae

- Foods and food ingredients consisting of or isolated from plants and food ingredients isolated from animals, except for foods and food ingredients obtained by traditional propagating or breeding practices and having a history of safe food use.

- Foods and food ingredients to which has been applied a production process not currently used, where that process gives rise to significant changes in the composition or structure of the foods or food ingredients which affect their nutritional value, metabolism or level of undesirable substances

Exemptions apply for food additives, flavourings, and extraction solvents used in the production of foodstuffs, and these fall within the scope of Council Directives 89/107/EEC, 88/388/EEC and 88/344/EEC respectively.

The Novel Foods Regulation also states that foods or food ingredients falling within the scope of the regulation must not present a danger for the consumer; mislead the consumer, and differ from foods or food ingredients that they are intended to replace to such an extent that their normal consumption would be nutritionally disadvantageous for the consumer.

In the UK, the Advisory Committee on Novel Foods and Processes (ACNFP) advises the FSA on any matters relating to novel foods (including genetically modified, GM, foods) and novel processes (including food irradiation). The ACNFP is a non-statutory, independent body of scientific experts that carries out safety assessments of any novel food or process submitted for approval under Regulation (EC) No 258/97 (the 'Novel Foods Regulation').

To register a novel food, the company must send product details, including scientific information and safety assessment forms to the EU. Apart from the high costs, the process of novel food registration can take up to two years. More details are available from the FSA webpage http://www.food.gov.uk/gmfoods/novel/assess/

4.7 Prospects for Dutch Companies

i. Market Entry Guidelines
Since supermarkets comprise almost all functional food sales, there are business openings only in this channel. Demand for functional foods from specialist retailers and other channels is negligible.

Buyers at supermarkets stated they would prefer to deal direct with companies offering new products. Organic Monitor believes this is because mostly large food corporations supply functional foods and buyers assume new suppliers would have sales offices in the UK.

There are not believed to be any openings for small-medium sized companies in the functional foods market. The market is controlled by large multinationals which are also experiencing a high level of product failures. Apart from a few companies in the functional bakery products market, the multinationals dominate.

Large Dutch companies that have successful functional food products in their home market are likely to find most openings in the UK market. Even then, competition for retail shelf-space is intensive. Such companies could consider private label production for British supermarkets. Many functional dairy products, breakfast cereals and cereal bars of retailer private labels are already made in mainland Europe.

ii. Products
Dairy is the largest category in the functional food market with 64 percent revenue share, however this is also the most competitive. Intense competition for retailer shelf-space leaves little openings in this category. Furthermore, established companies like Unilever and Danone are expanding their functional brands into new segments. For instance, Benecol has expanded from a dairy drink to yoghurts and spreads.

Cereal products is the second largest category, with a third revenue share. This category is also dominated by large multinationals like Kellogg's. There are considered some openings for breakfast cereal and cereal bar manufacturers if they have some unique product offerings. However, many brands and retailer private labels are in this category, also making it very competitive.

The functional beverages market is not deemed to have any business openings. Indeed, established manufacturers like Danone, Nestlé and Coca-Cola have all experienced product failures in this category.

There could be openings in the functional bakery products market. Leading British bakeries dominate this category, however there could be possibilities for novel functional products. Other categories do not have many, if any, functional food products. There could also be openings for novel functional products in these categories, however new entrants would have to be pioneers.

iii. Key Customers
The major customers of functional foods are the supermarkets. Dutch companies would have to work with the leading multiples: Tesco, ASDA, Morrison, Sainsbury's and Waitrose.

There are not considered to be any openings in specialist retailers, which prefer to have wholesome health / organic foods rather than functional foods. This provides a major hurdle to small-medium size Dutch companies looking at the UK market, since leading health food wholesalers would not be interested. Unless the functional foods had other attributes like organic, free-from or vegetarian, few importers / wholesalers would be looking to import functional foods.

iv. Business Risks & Pitfalls
The major business risks & pitfalls Dutch companies should be aware of are:

i. Intense competition.
Of all product sectors covered in this report, the functional foods sector is considered the most competitive. New entrants would be competing against multinationals that are investing millions of euros in developing and marketing their products.

ii. Product failure.
The functional foods market is characterised by a high level of product failures. All multinationals have been forced to withdraw products because consumer demand did not materialise. Recent product withdrawals include Nestlé axing its functional smoothies and Coca-Cola withdrawing its 5 Alive functional juice drink.

iii. High business risk.
Demand for functional foods is highly concentrated, with a small group of supermarkets generating the bulk of sales. The business risk for new suppliers is thus very high, since the cancellation of a single supermarket contract can have severe consequences.

iv. Retailer private labels.
The largest product categories have retailer private label products that are marketed at competitive prices. Shelf-space is further limited by such products.

v. Distribution.
A major barrier to market entry is distribution. Few of the large health food wholesalers are interested in supplying functional foods since there is low demand from specialist retailers. New entrants would have to develop their own supply chains, working with importers / wholesalers that have little / low knowledge of health foods.

v. Marketing & Other Recommendations
If Dutch companies did target the functional foods market, they are advised to adopt a niche strategy whereby they target specific market niches. They are advised to introduce novel products that are uniquely positioned. Probiotic dairy products or iron fortified breakfast cereals would not work as many such products already exist. There needs to be some Unique Selling Preposition (USP) for the products. This would prevent the products competing head-on with multinational brands like Flora Pro.Activ and Actimel. Such brands are supported by heavy marketing expenditure, usually millions of euros on advertising campaigns alone.

New entrants would have to have large marketing budgets if they are targeting the supermarkets. Marketing activities in the form of above-the-line promotions, below-the-line promotions and public relations are advised. These should include in-store promotions, advertisements in print media, point-of-sales promotions and trade incentives.

Since functional foods are not very popular in specialist retailers, trade shows for mainstream food products should be targeted. The two major ones in the UK are the International Food & Drink Exhibition (IFE) and Food & Drink Expo (FDE). The two trade shows are held at alternative years. For instance, FDE was held in April 2008 and IFE is being held in March 2009.

vi. Case Study: Unilever
The Anglo-Dutch company has been highly successful in the functional foods market with its Flora Pro.Activ brand. The multinational started research into developing low-fat alternatives to butter in the 1950s. Flora was initially launched as a vegetable oil-based spread in the 1960s. An extension of this brand is Flora Pro.Activ, which launched in 2000 as a plant sterol enriched spread. Flora Pro.Activ contain plants sterols that are scientifically proven to lower bad (LDL) cholesterol. The products are endorsed by the World Heart Federation.

The success of Flora Pro.Activ spreads led to milk drinks and yoghurts to be launched in 2003. To promote these products, Unilever invested considerably in marketing campaigns to educate consumers on their cholesterol lowering properties. The products carried the strapline, 'Love your heart' encouraging health-conscious consumers to buy them.

By marketing on health claims of the plant sterols, Unilever has built Flora Pro.Activ into a powerful brand. Such marketing campaigns led Flora Pro.Activ to become the number one cholesterol lowering brand in the UK. The brand has been expanded to yoghurts, oilive oil spreads and milk; all containing the plant sterols. Flora Pro.Activ products were re-formulated to incorporate omega 3 (EPA and DHA) in 2007.

Distribution was the second factor responsible for its strong market position. Unilever used its extensive distribution infrastructure to roll out Flora Pro.Activ products in all the supermarkets. The products also become available in many small food retailers.

4.8 References

1. Key Notes (2007), Functional Foods Market Assessment, Key Notes
2. Organic Monitor (2007), The South-East Asian Market for Soya & Non-Dairy Drinks, Organic Monitor
3. Natural Products (December 2007), *Folic Acid Fortification Threatens Range of Health Risks*, Diversified Business Communications
4. Organic Monitor (2006), *The UK Market for Value-Added Milk*, Organic Monitor
5. Just-Drinks.com (6 September 2008), Nestle Pulls Boosted Smoothies in Credit Crunch, Aroq
6. Just-Drinks.com (11 August 2008), Coca-Cola Enterprises Defends Diet Cola Plus, Aroq
7. Chambers S.A., Lobb A.E. & Mortimer D.T (July 2007),. *Attitudes and Behaviour Towards Functional Foods: Focus Groups*, University of Reading
8. Just-Food.com (7 July 2008), UK: Müller UK Relaunches Vitality Range, Aroq
9. Barbara J. Stewart-Knok (2007), *Uptake & Attitudes to Functional Foods in Europe*, Northern Ireland Centre for Food & Health (NICHE)
10. IGD Website, (http://www.igd.com)
11. Natural Products (December 2007), *Firms Overstate Omega-3 Benefits*, Diversified Business Communications
12. Nielsen Website, (http://www.nielsen.com)
13. Organic Monitor (2009), *The European Market for Organic Food & Drink*, Organic Monitor

5 The UK Market for Vegetarian Foods

5.1 Market Overview and Summary

The Vegetarian Society of the UK defines a vegetarian as is someone living on a diet of grains, pulses, nuts, seeds, vegetables and fruits with or without the use of dairy products and eggs. A vegetarian does not eat any meat, poultry, game, fish, shellfish or crustacea, or slaughter by-products.

For the sake of this report, vegetarian products are classified as those foods that replace animal-derived meat products like sausages, ham, ready-meals and fish dishes. The definition excludes foods that do not have any meat analogues; thus, fruits, vegetables, nuts and seeds are excluded.

Vegetarian foods can be segmented into three types:
I. Frozen Foods – products that are stored in frozen cabinets. Examples include frozen pies and ready-meals.

II. Chilled Foods – products that are stored in refrigerators. Products include chilled sausages, soups, etc.

III. Ambient Foods – products stored in room temperature. Examples include pies and soups.

Valued at EUR 982 million in 2007, vegetarian foods is the third largest sector in the UK health foods market. However, slowing growth rates are being observed as the market started to mature. The sector is undergoing consolidation, both in terms of suppliers and product ranges. Premier Foods and Hain Celestial have emerged as the market leaders by acquiring several brands. High competition limits openings for new entrants. Newcomers into the vegetarian foods market are advised to develop unique products and focus on specialist retailers.

5.2 Market Indicators

i. Market Size & Growth Potential
According to Key Notes, the UK market for vegetarian foods was estimated to be worth EUR 982 million in 2007. The market is growing by about 6 percent a year because of the growing popularity of vegetarian foods, especially by meat reducers.[1]

The chilled segment is the largest in the vegetarian foods market, worth about EUR 747 million. The sector is showing the high growth, with many new product launches involving ready-meals, delicatessen, and pastry-based products.

Frozen vegetarian foods generated about EUR 235 million revenues in 2007. Minces, pies and grilled products comprise most sales in this sector.

Steady growth of about 4-6 percent is projected from 2008 to 2011. New product launches and increasing adoption rates are expected to drive market growth.

ii. Market Trends
The major factors that are driving growth in the vegetarian food market are:

Rising awareness of health issues. The UK has the highest level of obesity and heart disease in Europe. The government, industry groups like The Vegetarian Society and British Heart Foundation, and nutritionists are encouraging consumers to change their lifestyles and consume more health foods. Consumers are encouraged to have a balanced diet with more plant-based products like soya and vegetables, and less red meat. Vegetarian foods are becoming popular as consumers become more aware of these health issues and reduce meat intake. The RealEat surveys, conducted by Haldane Food between 1981 and 2001, found this factor to be a major driver of vegetarian food sales. [2]

Growing demand from meat reducers. Most demand for vegetarian foods is not coming from vegetarians but from meat reducers. Some consumers are consuming less meat products because of growing concern about obesity, heart disease and similar conditions that are linked to fat-rich diets. Another group of consumers is buying these products as they are more nutritious: vegetarian foods are low in saturated and total fat, high in dietary fibre and complex carbohydrates. Others are reducing meat intake because of ethical concerns about animal welfare.

Mainstreaming of vegetarian foods. Meat analogues were initially produced especially for vegetarians and typically found in health food shops. However, vegetarian foods have become widely popular since the late 1990s, causing large food retailers to introduce these products in their stores. Most have launched meat-free ranges under their private labels.

Food scares reducing confidence in meat products. A large number of food scares have involved meat products: Bovine Spongiform Encephalopathy (BSE), foot-and-mouth, bird flu, and dioxins in pork. Such food scares lower consumer confidence in meat products and strengthen demand for vegetarian foods, even if consumers do not completely turn away from meat products.

The major factors that are restraining growth in the vegetarian food market are:
Limited appeal of vegetarian foods. Although these products have more widely available in recent years, consumer demand is still largely limited to consumers who actively avoid meat products. Thus, most vegetarian foods are marketed as ‘meat-free’ or ‘approved by the vegetarian society’, limiting demand to consumers who are seeking meat alternatives. In comparison, similar products like soya drink are consumed by all consumer segments.

Limited shelf-space in retailers. Although shelf-space for vegetarian foods has expanded considerably since the mid 1990s, retailers have low shelf-space for new vegetarian foods. This is especially true since these products have been integrated into product aisles, competing with meat-based products.

Low consumer awareness of health benefits of vegetarian foods. The majority of British consumers do not fully understand the health benefits of eating meat analogues like tofu, soya and quorn. They are not aware of the positive health benefits of these products and their high nutrient content.

iii. Product Trends
The major product trends being observed in the vegetarian food market are:

Rationalisation of brands and product ranges. The vegetarian foods market showed high growth until the turn of the millennium. The market is now considered mature, causing the number of products and brands to consolidate. Indeed, some leading manufacturers have reduced their product ranges as shelf-space for vegetarian foods has become limited.

Consolidation. The vegetarian foods market has experienced a number of mergers and acquisitions since 2002. Premier Foods and Hain Celestial have emerged as the market leaders after acquiring several vegetarian food companies. Consolidation is leading to fewer brands in the marketplace.

Niche brands. Small niche brands are emerging in health food shops and specialist retailers. Large food manufacturers like Premier Foods and Birds Eye are focusing on mass market retailers, leaving new entrants and new product launches to occur in specialist retailers. For instance, new brands like Taifun and Clearspot are specifically designed for health food shops and organic food retailers.

Wider protein bases. Although most vegetarian foods are made from quorn and soya, other vegetable proteins are becoming popular. Tofu has become prominent, whilst others like tempeh and seitan are slowly gaining popularity. Such products are typically introduced in specialist retailers first, and are then in supermarkets.

iv. Consumer Trends

This section gives details on consumers who buy vegetarian foods. [2]

The Vegetarian Society of the UK classifies three types of vegetarian consumers:

Lacto-ovo-vegetarian – they eat both dairy products and eggs. These are the most common types of vegetarians.

Lacto-vegetarian – they eat dairy products but not eggs.

Vegan – they do not eat dairy products, eggs, or any other animal-derived products.

According to the RealEat surveys, the number of complete vegetarians rose from 1.2 million to a peak of around 2.5 million in 1997. This represents a rise from 2.7 percent of the UK population to 5.4 percent in 1997.

Research by the Food Standards Agency (FSA) found that the number of complete vegetarians continued to rise to around 3.6 million in 2003, but then fell back to 2.4 million in 2005. It is estimated that the UK now has about 3 million complete vegetarians, representing around 5 percent of the population. More female adults (5.7 percent of the population) are vegetarians than male adults (3.6 percent). Most vegetarians are in the ABC1 social classes.

The FSA Consumer Attitudes to Food Standards 2007 survey found that 2 percent of the UK population was ‘completely vegetarian’ whilst another 5 percent was ‘partly vegetarian’. People of non-white ethnic origin were more likely to be vegetarian (15 percent) compared to whites (6 percent). The survey involved polling 3,627 consumers between August and October 2007.[3]

A DEFRA survey in November 2007 discovered that 3 percent of the UK population was vegetarian, 2 percent vegan, and an additional 5 percent only ate fish / chicken as well as vegetarian food. The highest number of vegetarian / vegans was found in 16-29 year old females, at 7 percent.

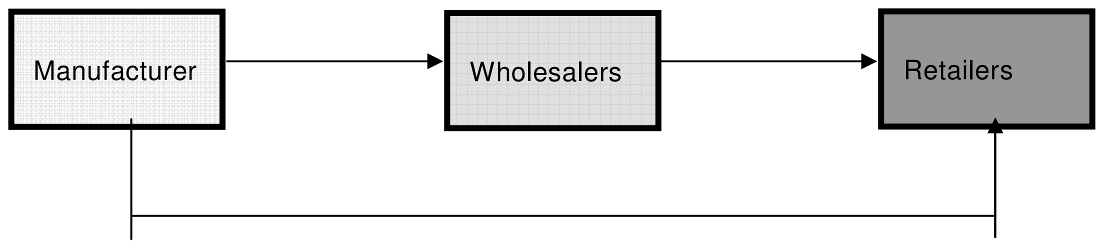
NEMS Market Research undertaken in April 2007 found that 8 percent of consumers claim that “I or another member of this household is a vegetarian, who perhaps eats fish”. Another 7.5 percent claimed that “I or another member of this household used to be a vegetarian, who perhaps ate fish”. The survey involved polling over 1,000 adults.

A BMRB survey in 2006 found that 1.4 percent of adults bought a vegetarian meal. Women are three times as likely as men to buy these products, with usage highest in consumers aged between 25-44 years.

5.3 Supply-Side Analysis

i. Supply Chain
Chart 3 gives a general illustration of the supply chain for vegetarian foods. Most vegetarian foods are supplied direct to retailers by manufacturers. Large companies like Premier Foods deal direct with supermarkets.

Chart 3 The UK Market for Vegetarian Foods: Distribution Structure, 2008



Source: Organic Monitor

Wholesalers are important for specialist retailers: health food shops and organic food retailers. Most of the leading wholesalers of organic products deal in vegetarian foods.

Some wholesalers double up as importers and bring products into the UK. Windmill Organics is a leading importer of vegetarian foods from Germany.

ii. Producer Analysis
Figure 13 lists the leading vegetarian food companies in the UK. Premier Foods is the market leader with its Marlow Foods and Cauldron Foods subsidiaries. Both companies have been acquired by the food company, giving it about 20 percent share of the vegetarian foods market. This market share excludes vegetarian foods these subsidiaries make for retailer private labels.

Figure 13
The UK Market for Vegetarian Foods: List of Leading Vegetarian Food Companies, 2008

Leading Companies	Brands
Birds Eye	Birds Eye
Cauldron Foods	Cauldron
Dalepak Foods	Dalepak
Haldane Foods	Realeat, Direct Foods, Granose, White Wave.
Hain Celestial	Linda McCartney
Marlow Foods	Quorn
Tivall	Tivall

Source: Organic Monitor

Quorn is the leading brand of vegetarian foods in the UK. Quorn products are made from mycoprotein, a fungal type of organism that has meat-like characteristics. Quorn has a comprehensive product range that includes burgers, sausages, fillets, steaks, mince, grills, ready-meals and delicatessen meals. The products are made by *Marlow Foods*, which started production in 1994. The company was initially owned by AstraZeneca, which sold it to Montagu Private Equity in 2003. Premier Foods acquired Marlow Foods in 2005, followed by Cauldron Foods the same year.

Cauldron Foods is another leading producer of vegetarian foods. It has a wide range of chilled and frozen vegetarian foods, of which about half are produced from tofu. It has a number of organic lines that are highly evident in specialist retailers.

The Linda McCartnery brand has a comprehensive range of vegetarian foods that are made from soya, wheat and pea protein. It has mince, pastries, pies, sausages, burgers and ready-meals in its product range. The brand was owned by HJ Heinz but was bought by the natural & organic food company *Hain Celestial* in May 2006.

Haldane Foods was also acquired by Hain Celestial in 2006. It was bought from Archer Daniel Midlands. The company makes a number of soya-based frozen and ambient vegetarian foods like sausage mixes, vegetarian burgers and bacon. Its products are highly successful in specialist retailers, marketed under brands like Granose, White Wave, RealEat, and Direct Foods.

Dalepak Foods produces a range of frozen vegetarian foods like vegetable grills, quarter pounds, sausages, and crisp bakes. The company is owned by Northern Foods, a major British food manufacturer in 1998. Its vegetarian foods are made from vegetables like cauliflowers, peas, green beans and onions.

Birds Eye is a leading manufacturer of frozen foods. The company is present in the vegetarian foods market with a range of frozen vegetarian foods like vegetable fingers and quarter pounders. The products contain vegetables like onions, carrots, broccoli and cauliflower. Birds Eye was bought by the private equity firm Permira from Unilever in August 2006.

Tivall is the leading non-UK brand of vegetarian foods. The products are made by Tivall, an Israeli manufacturer of vegetarian foods that is owned by OSEM Investments. The company produces a wide range of soya-based vegetarian foods that include nuggets, sausages, burgers, frankfurters, and grills.

iii. Wholesaler Analysis

Most wholesalers of vegetarian foods specialise in organic & natural foods. Important wholesalers are Marigold Health Foods, The Health Store, Suma Wholefoods, Queenswood Natural Foods, Goodness Foods, Good Food Distributors, Essential Trading, Foundation Foods, Juniper Fine Foods and Windmill Organics. All these companies deal in chilled and ambient products. These companies carry a range of products that include imported and British brands.

Other wholesalers like Community Foods, Tree of Life, and Infinity Foods do not distribute these products. Lack of refrigerated warehousing space is the major reason for them not to do so.

iv. Import Analysis

Most of the vegetarian foods are produced in the UK. It is estimated that about 25-40 percent of the products are made in mainland Europe. Most imported products are made by large food manufacturers like Birds Eye and Tivall that have several production bases. Some products for the retailer private labels are also made in Europe. Relatively low volume is sold under foreign brands.

Leading imported brands include Tivall, Taifun and Biona. The latter two companies sell organic tofu from Germany. The products are mainly sold in specialist retailers, whereas large brands are generally only in mass market retailers.[4]

Apart from Tivall, most imports of foreign brands come into the UK via wholesalers. Windmill Organics is a leading importer of chilled vegetarian foods sasdand it deals with the Taifun, Viana and Topas brands. Most wholesalers do not engage in imports and buy from other wholesalers; for instance, Windmill Organics supplies vegetarian foods to a number of other wholesalers that supply specialist retailers. Other importers of vegetarian foods are Marigold Health Foods, The Health Store and Juniper Fine Foods.

5.4 Sales Analysis

i. Retailer Profiles

Tesco

A comprehensive range of vegetarian foods are in Tesco supermarkets. Frozen, chilled and ambient products are available under manufacturer brand names and Tesco private labels. Many products are marketed under the Tesco Vegetarian and Tesco Meat Free brands. These brands have a large number of products that include sausages, burgers, fillets, cutlets, fingers, mince and ready-meals.

Quorn is the leading manufacturer brand of vegetarian foods. Other brands include Cauldron, Linda McCartney and RealEat. Research by TNS finds Tesco the leading retailer of vegetarian foods, with about 29 percent market share.

Sainsbury's

The supermarket is the second leading retailer of vegetarian foods, with about 16 percent market share according to TNS. Its high market share is because of a wide product range. Like Tesco, it has a comprehensive range of products under its Sainsbury's and Sainsbury's Meat free private labels. Products include quarter pounders, sausages, burgers, hotb dog sausages, Glamorgan sausages, creamy garlic Kievs and ready-meals.

A number of manufacture brands of vegetarian foods are also available. Brands include Quorn, Cauldron, Tivall, Linda McCartney's and Goodlife.

ASDA
ASDA also has a wide range of frozen, chilled and ambient vegetarian foods. Many are marketed under the ASDA and ASDA Meat Free private labels. Products include mince, sausage rolls, hot dog sausages, burgers, nut cutlets, tomato & veggie meat balls, roasted vegetable lasagne, vegetarian pasta bake, meat-free spaghetti bolognese and similar read-meals.

The Quorn brand has the largest range of manufacturer branded products. Other brands include Cauldron, Grassingtons and Birds Eye. According to TNS, ASDA is the fourth leading retailer of vegetarian foods in the UK.

Morrison
The supermarket also has a wide range of frozen, chilled and ambient vegetarian foods. Many products are marketed under the Morrison and Morrison Meat Free private labels. Products include sausages, burgers, mince, quarter pounders and ready-meals. Manufacturer brands include Quorn, Linda McCartney and Tivall.

Waitrose
Waitrose has no dedicated private label for vegetarian foods. Most products are marketed under manufacturer brands. Some vegetarian foods are marketed under its Waitrose and Waitrose Organic brands, however the ranges are small compared to other supermarkets. Waitrose Organic has cheddar & pepper burgers, smoked cheese squash burger and similar products.

A number of frozen, chilled and ambient vegetarian foods are found in Waitrose. Quorn is the leading brand, having a wide range of products across categories. Other brands include Cauldron, Linda McCartney, Get Real, Taifun and Cranks.

Specialist Retailers
Health food shops and organic food shops were initially the most important sales channel for vegetarian foods, however they were overtaken by supermarkets in the 1990s. Organic food retailers now focus on organic brands like Cauldron, Amy's Kitchen and Taifun. Health food shops have similar product ranges but do not generally prefer organic brands. Specialist retailers tend to have more delicatessen products, snacks and ingredients like tofu, meat-free sausages rather than ready-meals.

ii. Sales Breakdown by Channels
About 85 percent of vegetarian food sales are from the supermarkets. The high market share is because of the wide product range in supermarkets, comprising retailer private labels, large brands as well as niche brands.

Specialist retailers have about 10 percent market share, and the remaining 5 percent of sales is from other channels. Most sales are to the catering & foodservice sector, with a growing number of restaurants, cafés, hotels, factory canteens, government buildings and hospitals using meat analogues like tofu.

iii. Retailer Trends
The major retailing trends that are occurring are:
Prominence of retailer private labels. All leading supermarkets are marketing vegetarian foods under their private labels. Since retailers give preference to their private labels, shelf-space and thus market share of manufacturer brands is in decline. New entrants thus face high competition from established brands as well as retailer private labels.

Integrated store shelves. Initially, retailers used to have dedicated store areas for vegetarian foods. However, vegetarian foods are now integrated into product aisles. For instance, vegetarian ready-meals are alongside meat-based ready-meals and meat-free sausages are next to meat sausages.

Specialist retailers seek niche brands. The wide range of vegetarian foods in supermarkets leads specialist retailers to favour niche brands / products that are not present in large food retailers. [5]

5.5 Product & Pricing Analysis

Sample retail prices of vegetarian foods are given in figure 14.

Figure 14
The UK Market for Vegetarian Foods: Typical Retail Prices of Meat Replacements, December 2008

Product	GB £	EUR
Cauldron Organic Marinated Tofu Pieces (150g)	1.90	2.41
Cauldron Mushroom & Spinach Cannelloni (400g)	2.49	3.16
Cauldron Organic Moorish Falafels (180g)	1.99	2.53
Danival Organic Chilli Con Seitan (525g)	4.49	5.68
Impulse Foods Frozen Plain Tempeh (227g)	2.16	2.73
Impulse Foods Organic Frozen Tempeh Smokey Slices (113g)	2.06	2.61
Lima Organic Seitan (500g)	3.49	4.42
Linda McCartney 6 Vegetarian Sausages (300g)	1.00	1.27
Linda McCartney Lasagne (360g)	1.79	2.27
Linda McCartney Sausage Roll (342g)	0.67	0.85
Quorn Mince (300g)	1.99	2.53
Quorn Bacon Style Rashers (150g)	1.64	2.08
Quorn Cottage Pie (500g)	2.49	3.15
Quorn Sizzling Bangers (250g)	1.99	2.52
Quorn Deli Chicken-Style Slices (100g)	1.55	1.96
Tesco Meat Free 2 Chicken Style Fillets (200g)	1.99	2.53
Tesco Meat Free Meat-Style Balls (300g)	1.99	2.53
Tesco Meat Free 10 Hot Dog Sausages (300g)	1.76	2.24
Tivall Vegetarian Schnitzel (400g)	2.59	3.29
Sainsbury's Vegetarian Quarter Pounder Burger (227g)	1.69	2.15
Sainsbury's Meatfree Creamy Garlic Kievs (250g)	1.58	2.01
Taifun Wild Garlic Tofu Fillets (160g)	2.54	3.22
Taifun Silken Tofu, Natural (400g)	2.91	3.68
Topas Seitan Smoked Steaks (150g)	2.69	3.41
Vegetalia Organic Tempeh in a Jar (6x440g)	28.96	36.66

Source: Various Retailers

5.6 Regulatory Environment

There is no single legal definition of a vegetarian at the UK or European level. However, a number of vegetarian logos are present on food labels. The most common one in the UK is the Vegetarian Society Approved Seedling symbol. This is a registered as an official trade mark and is present on a large number of products that are accredited by the Vegetarian Society.

The 'suitable for vegetarians' term is found on a large number of food products, however this is not regulated. The FSA has published guidelines on the use of the terms vegetarian and vegan in food labelling. This can be access from
http://www.food.gov.uk/multimedia/pdfs/vegitermsgn.pdf

5.7 Prospects for Dutch Companies

i. Market Entry Guidelines
Large food manufacturers looking at the vegetarian foods market are advised to target the supermarkets. In which case, the companies should deal direct with leading food retailers. However, the supermarkets are likely to be more interested in working with a new supplier for private label production, rather than introducing manufacturer branded products.

Small-medium size manufacturers should tie up with the leading wholesalers. Many of these companies, like Marigold Health Foods and Windmill Organics, already import vegetarian foods.

ii. Products
Compared to other health food product categories, the vegetarian foods market is considered highly competitive. The market is maturing, causing consolidation of companies and their product ranges. Furthermore, retailers are focusing on private label products which are squeezing out manufacturer branded products on store shelves.

However, the vegetarian foods market does have openings for new entrants, especially companies with unique products. Dutch companies targeting this market should have products with some unique product characteristics. This could be in the form of meat analogue protein or product ranges.

iii. Key Customers
Although supermarkets represent the bulk of vegetarian food sales, most prospects are considered in specialist retailers:

The supermarkets are focusing on developing their private label products.

Large established brands like Quorn, Linda McCartney and Cauldron are well-established in supermarkets. Furthermore, multinational brands like Birds Eye are making inroads in these retailers.

Health food shops and other specialist retailers look for non-mainstream brands. Indeed, most imported brands have made inroads in these retailers.

iv. Business Risks & Pitfalls
The major business risks & pitfalls Dutch companies should be aware of are:

i. High competition.
The UK market is very competitive, especially since the spate of mergers & acquisitions since 2002. The competitive environment has led large food companies like Findus UK and Birds Eye to reduce their vegetarian product ranges.

ii. Retailer private labels.
These products are marketed at competitive prices and will limit openings for new entrants.

iii. Distribution structure.
As for organic foods, wholesalers are the key to market success. Exporters are advised to work with leading wholesalers of natural & organic foods like Suma Wholefoods.

v. Marketing & Other Recommendations
Dutch companies should invest in marketing to raise visibility and awareness of their vegetarian products in the UK.

If Dutch companies are targeting health food shops then they should take on board the guidelines for organic foods; if they are targeting supermarkets then they should consider the guidelines for organic foods. Two different marketing approaches are required for these distinct channels.

vi. Case Study: Florentin Mediterranean Foods
The Dutch company Florentin Mediterranean Foods is one of the few European companies to be successful in the UK vegetarian foods market. The company produces a range of fresh and long-life vegetarian delicatessen products. It has been successful in the UK because of its unique product range, which is marketed as organic and vegetarian.

It has a range of delicatessen products like falafel, pesto, tapas, salads and tapenades. The products are made from vegetables like chickpeas, mushrooms and tomatoes. They are marketed under the Florentin brand and are positioned as Mediterrneean foods for health-conscious consumers. Its products are in organic food retailers, health food shops and are used by catering & foodservice companies. It is very successful in specialist retailers, one of the leading brands of organic falafel in the UK.

5.8 References

1. Key Notes (2007), Vegetetarian Foods Market Assessment, Key Notes
2. The Vegetarian Society Website, (http://www.vegsoc.org)
3. Food Standards Agency (2008), *Consumer Attitudes to Food Standards Wave 8*, Food Standards Agency
4. Organic Monitor (2006), The European Market for Soya & Non-Dairy Desserts, Organic Monitor
5. Organic Monitor (2009), The UK Market for Natural & Organic Personal Care Products, Organic Monitor

6 The UK Market for Free-From Foods

6.1 Market Overview and Summary

A large number of foods are marketed as free-from; these include fat-free, cholesterol-free, nut-free, sugar-free, etc. For the sake of this report, we define free-from foods as those products designed for consumers with special dietary needs. According to this definition, free-from foods can be classified as two types:

I. Lactose-free products – products that are used as substitutes to dairy products like milk, yoghurt, cheese, etc. These products are commonly referred to as dairy alternatives as they are made from soya, rice, oats, and similar cereals.

II. Gluten-free products – products that are used as substitutes to wheat-based products like bread, rolls, cakes, biscuits, pasta, etc. These are sometimes referred to as coeliac foods, since they are eaten by coeliacs: people suffering from gluten allergies.

The definition excludes foods that are marketed as free-from but do not meet this classification. Thus, nut-free products like biscuits and cakes are excluded, as are fat-free yoghurts. Other products that are marketed as free-from but do not meet any special dietary needs are excluded. Such products include additive-free sweets and food products marketed as free-from artificial flavours / preservatives.

Free-from food sales were worth about EUR 380 million in 2007. Although the sector is the smallest in the UK health foods market, it is the fastest growing. Sales of lactose-free and gluten-free products are increasing by 15 percent a year; growth rates of 10-14 percent are projected in the coming years.

Lactose-free (or dairy alternatives) and gluten-free are two distinct segments in the free-from foods market, with no brands present in both segments. The dairy alternatives market is highly competitive, with manufacturer brands and retailer private labels limiting openings for new entrants. The gluten-free products market is more prospective since the level of competition is lower and the market is more fragmented. Prospective exporters should focus on specialist retailers when targeting this sector.

Market Indicators
i. Market Size & Growth Potential
Organic Monitor estimates free-from foods sales generated EUR 380 million revenues in 2007. The market is growing by about 15 percent a year. Growth rates have slowed in recent years; revenues increased by 20-30 percent a year up to 2003.1 High market growth rates were observed as free-from foods made the transition from specialist to mainstream retailers. In 2000, very few lactose-free and gluten-free products were in supermarkets, however all supermarkets now have extensive product ranges. 2

Free-from product sales are projected to expand by 10-14 percent from 2009 onwards. Consumer demand for such products remains buoyant, and retailers continue to devote more shelf-space to these products. Lactose-free products are the most visible in retailers, with many marketed under retailer private labels.

Lactose-free is the largest category, worth about EUR 280 million in 2007. Soya products like drinks and yoghurts are highly successful in the UK market. Soya drinks, as milk substitutes, are commonly found alongside dairy milk in all leading food retailers.

The gluten-free products market was valued at EUR 90 million in 2007. The most popular products are bakery products, biscuits and snacks.

ii. Market Trends

The major factors that are driving growth in the free-from foods market are:

Broadening demand for dairy alternatives. Unlike gluten-free products, most dairy alternatives are consumed by people who do not suffer food allergies. Various factors are responsible for consumers to buy dairy alternatives. Some want to avoid dairy products because of their associated health risks. Others do so because soya- and oat- based products are believed to better for their health. Another group, mainly comprising vegans, avoid dairy products because of concerns about animal-derived products.

Rising awareness of the health benefits of soya. Many consumers buy soya-based dairy alternatives because of the functional properties of soya. Soya consumption is linked to low cholesterol levels, low incidence of osteoporosis, and lower occurrences of breast cancer in women.

Consumer concern about food allergies. According to Allergy UK, 45 percent of the UK population claim to have some intolerance or sensitivity to some foods. Although most are self-diagnosed, these consumers actively seek products that are free-from potential allergens like lactose, gluten, wheat and nuts. 3

Growing popularity of a varied diet. As British consumers have become more health-conscious, they are actively looking to have a varied and balanced diet. Since lactose and gluten are in many staple foods like bread, pasta and cheese, they are turning to substitute food products like dairy-free and wheat-free.

Retailer private labels stimulating consumer demand. The launch of dairy alternatives and gluten-free products under retailer private labels is making these products widely available to consumers. Furthermore, the competitive prices of private label products make them attractive to price-conscious consumers.

The major factors that are restraining growth in the free-from foods market are:
Limited demand for free-from foods. Apart from soya-based products, most demand for these products stems from consumers who suffer food allergies. It is therefore difficult to generate widespread demand for products like gluten-free cakes and rice-based yoghurt. Soya products have succeeded in becoming mass market products partly because of the health benefits of soya; this has enabled them to be marketed as functional foods as well as dairy alternatives.

Lack of understanding of food allergies. Although almost half the British population believe they suffer from food allergies or intolerance, only 2 percent are clinically diagnosed. The majority are self-diagnosed, implying consumers do not fully understand what food allergies are and their diet implications. Many such consumers are believed to dabble in free-from foods, but are not committed buyers.

Competition for shelf-space from other health foods. Free-from foods are facing a growing threat from competing health foods. Supermarkets can find it easier to market whole foods like oats, dried fruits, olives and seeds rather than give a dedicated section to free-from foods. This is because free-from foods are designed for consumers with special dietary needs which can also be met by the aforementioned health foods.

iii. Product Trends
i. Increased segmentation. Companies are targeting products at specific market segments.4 For instance, NaturGreen Soya Woman (soya drink) is designed for menopausal women. It is rich in isoflavones and has a positive effect on menopause disorders. Other companies are launching brands / products for specific sales channels. Alpro re-launched the Provamel brand of soya products exclusively for health food shops in May 2008. The products are marketed 100 percent organic and for health food shops only. Its flagship brand Alpro is positioned in supermarkets and mass market retailer.

ii. Convergence with other health food categories.
Manufacturers of free-from foods are developing products that are positioned as free-from and organic, functional, etc. For instance, many gluten-free products are also organic, and many lactose-free products are also functional. A few products are even positioned in three categories. For instance, the Sojade Organic Blueberry with Bifudus Soya Yoghurt is organic, functional and free-from. The aim of such products is to broaden consumer demand outside those with special dietary needs. 5

iii. Functional products.
A significant number of free-from products, especially dairy alternatives, are fortified and marketed on their health benefits. For instance, Alpro launched an omega acid-fortified soya drink in December 2008. The product is marketed under the Provamel Soya Omega 3 brand. Other products are fortified with vitamins, calcium and other minerals.

iv. New product launches and product innovations.
The lactose-free and gluten-free product markets are experiencing a large number of new product launches. Almost all dairy products are now available dairy-free. Novel product launches include soya-based ice-cream lollies and wholegrain rice-based drink. The gluten-free category is also seeing new product innovations. An example is Roley's Teff flour mix which is made by from Teff, a highly nutritious grain originating from Ethiopia. The company is planning to develop other products like biscuits and bread from the ancient grain.

iv. Consumer Trends
The FSA conducted research to explore the consumption of free-from foods in April 2007. Over 2000 adults were interviewed by an Omnibus survey to get an understanding of consumer behaviour. Some of key findings were: 6

Just 12 percent of adults stated they were avoiding certain foods because of an allergy and / or intolerance, with 5 percent doing so due to an allergy and 8 percent due to intolerance.

Dairy products are the most avoided, by 17 percent of these consumers. The next most stated were nuts (14 percent), wheat / gluten (13 percent), certain fruits (11 percent), caffeine (9 percent) and sugar (9 percent).

The majority of respondents (85 percent) rarely or never bought any products labelled as 'free-from', although this fell to around half (54 percent) of those who were avoiding certain foods due to an allergy / intolerance.

Those with an allergy / intolerance to gluten / wheat were most likely (91 percent) to buy 'free-from' products at least sometimes, even though the most common allergy / intolerance was dairy (71 percent of those suffering from this allergy / intolerance bought 'free-from' products at least sometimes).

Amongst those who bought any 'free-from' products, wheat / gluten products were the most commonly purchased (26 percent), whilst dairy-free products were bought by 15 percent.

One of the key findings from the research was that consumers did not always relate 'free-from' products to allergies and /or intolerances; respondents also mentioned buying fat-free (15 percent) and preservative / additive-free products (7 percent), which were not commonly mentioned as types of allergies / intolerances these respondents suffered from.

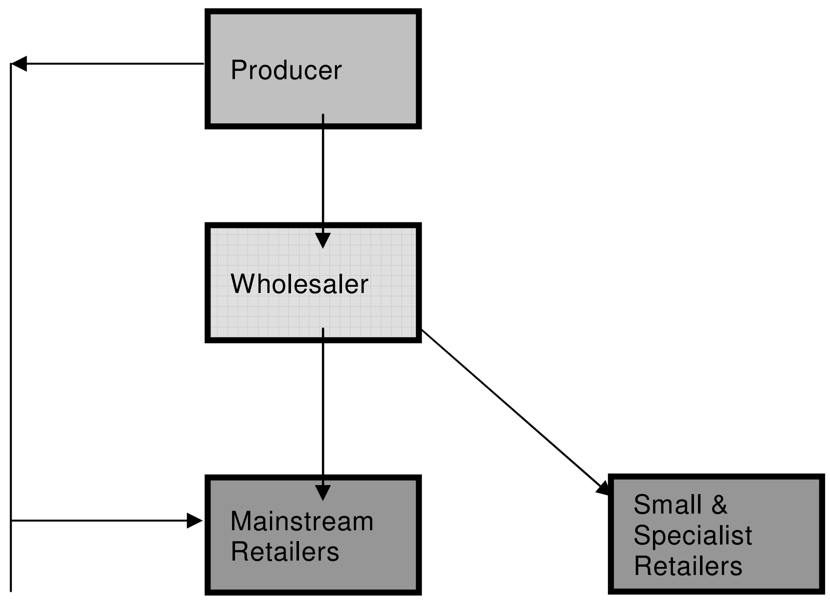
So Good, a leading manufacturer of soya-based dairy alternatives conducted research into consumer behaviour towards these products in 2006. It found that only about a third of soya drink consumers suffer from any food allergies / intolerance, and that the majority do so out of choice. These 'optional' consumers are likely to be female, aged over 30 and seeking a healthy lifestyle. The typical consumer buys one pack of So Good soya drink per week. 7

6.2 Supply-Side Analysis

i. Supply Chain
The distribution structure for free-from foods is shown in chart 4. The supply chain for free-from foods is identical to that for organic & vegetarian foods. British manufacturers tend to supply large retailers direct and rely on wholesalers to distribute to small retailers and specialists.

Alpro is the leading manufacturer of free-from foods, producing a wide range of dairy alternatives. Other British manufacturers include Haldane Foods, So Good and Gluten-Free Foods. Imported products mainly come into the UK via dedicated importers and / or wholesalers. The same wholesalers for organic foods are important for free-from foods.

Chart 4 The UK Market for Free-From Foods: Distribution Structure, 2008



Source: Organic Monitor

Most sales of free-from foods are from supermarkets, which have about 80 percent market share. The high market share is partly because of the large number of private label products.

ii. Producer Analysis
Figure 15 lists the leading suppliers of free-from foods in the UK.

Figure 15
The UK Market for Free-from Foods: List of Leading Companies, 2008

Leading Companies	Sector
Alpro	Lactose-Free Products
Hain Celestial	Lactose-Free Products
So Good	Lactose-Free Products
Soya Health Foods	Lactose-Free Products
Kallo Foods	Gluten-Free Products
General Dietary	Gluten-Free Products
Gluten Free Foods	Gluten-Free Products

Source: Organic Monitor

Alpro is the market leader because of its domination of the dairy alternatives products market. The Belgian company was set up in 1980 as a subsidiary of the Vandermoortele group. Since then, Alpro is the leading producer of soya-based dairy alternatives in Europe with production facilities in Wevlegem (Belgium), Issenheim (France), and Kettering (UK). Its Kettering plant was opened in 2000 and is the source of most of the non-dairy products the company sells in the UK, although some are imported.

The company markets a wide range of soya-based dairy alternatives under the Alpro and Provamel brand names. Alpro soya products include drinks, yoghurts, creams and desserts. The Provamel brand also has custards and cheese. All Provamel products are organic varieties. Alpro products are in supermarkets and mass market retailers, whereas Provamel products are in specialist retailers. Both brands are market leaders in these channels.

The American company *Hain Celestial* is also active in the dairy alternatives market. Its subsidiary Haldane Foods is a leading producer of non-dairy drinks. Brands include Soy Dream, Rice Dream and Granose. Rice Dream is the leading brand of rice-based dairy alternatives in the UK.

So Good is another leading manufacturer of soya drinks. The Wessanen Group bought the company from Sanitarium Health Food Company in February 2008. The Australian company set up a production plant in Peterborough in February 2001. It was the first company to launch chilled soya drinks on a large-scale in the UK. The So Good brand also has soya-based ice-cream. A novel rice-based drink was launched under the Rice & Easy brand in 2007.

Soya Health Foods is the leading British company in the dairy alternatives market. Established in 1984, the company is part of the Soya Group. Apart from soya drinks, the company makes soya ice–cream, tofu, and soya ingredients. Its soya products are marketed under the Sunrise brand.

Kallo Foods, another subsidiary of the Wessanen Group, is a leading producer of gluten-free products. The company launched its Free to Enjoy brand in July 2006. Marketed as the first dedicated brand of free-from foods, it is designed for consumers with food allergies and intolerances. The gluten-free and wheat-free products include biscuits, snacks, cakes and breakfast cereals.

Gluten Free Products is a leading UK manufacturer of special dietary foods. The company is highly established, making such products since 1994. It has over 60 products that are marketed as wheat-free and gluten-free. Marketed under the Barkat brand, products include bread, biscuits, cakes, breakfast cereals, pasta and snacks.

General Dietary is a leading supplier of gluten-free bakery products. The company has been supplying such products since 1983. It imports and distributes Ener G products from Seattle-based Ener-G Foods. The Ener G brand has a wide range of gluten-free products that includes breads, rolls, biscuits, snacks, pasta, and baking mixes.

iii. Wholesaler Analysis
The same wholesalers that deal in organic foods and vegetarian foods supply free-from foods. All leading wholesalers of such products carry dairy alternatives and gluten-free products. Important companies are Tree of Life, Infinity Foods, , Suma Wholefoods, Juniper Fine Foods, Marigold Health Foods, The Health Store and Queenswood Natural Foods. These companies carry a wide range of products that include imported and British brands.

iv. Import Analysis
The majority of free-from foods are produced in the UK. Imports comprise only about 10 percent of dairy alternative sales. Non-soya products are mainly imported. For instance, rice-based products are mostly from Germany and oat drinks mainly come in from Sweden. Almost all soya drinks are made in the UK, albeit by subsidiaries of foreign companies (Alpro, Hain Celestial, Royal Wessanen). However, soya products like yoghurts, desserts, and ice-cream are mainly imported. Imported brands include Oatly, Swedish Glace, Rice Dream and Eco Mil. Some Alpro products are also imported.

About half of gluten-free products are imported. Products come in from a large number of countries that include USA, Australia as well as mainland Europe. The leading imported brands include Orgran, Ener G and Glutano.

Imported brands tend to find more shelf-space in specialist retailers than in supermarkets. Indeed, supermarkets prefer to market private label products. The level of imports is not expected to change much in the coming years.

6.3 Sales Analysis

i. Retailer Profiles
Tesco
Tesco markets a wide range of free-from foods under its Free From private label. Launched in 2007, the brand has over 100 food products that are clearly marked free from wheat, gluten and / or milk. The products include gluten-free products like cakes, breads, pasta, pies, cereal bars, breakfast cereals and puddings. The supermarket also has a number of manufacturer branded products that include Alara breakfast cereals, Orgran pasta & spaghetti, Doves Farm flour, Village Bakery cereal bars and Kelkin porridge.

A comprehensive range of dairy alternatives are also in Tesco supermarkets. A number of soya drinks are available under manufacturer brand names and the Tesco private label. Soya yoghurts, puddings, cheese and spreads are also available. The Alpro and So Good brands are the most popular. Some Provamel rice drinks and Oatly oat drinks are also in its stores.

Sainsbury's
Sainsbury's also has a private label dedicated to special dietary foods. The Sainsbury's Freefrom brand has products that are wheat-free, gluten-free and / or dairy-free. It has over 50 gluten-free products that include bakery products like breads, rolls, baguettes, ciabattas, as well as cakes, cookies, doughnuts and pizza bases. A number of manufacturer branded

products are also present; these include Bussinks Rich Dutch fruit loaf and Dietary Specials crispbread, wafers, and pies.

The food retailer also has a wide range of dairy alternatives that include soya drinks, yoghurts, desserts as well as rice drinks. The Sainsbury's private label has a number of soya drinks and custard. Alpro and So Good are the main manufacturer brands of dairy alternatives. Rice Dream rice drinks and Swedish Glace soya ice-cream are also in its stores.

ASDA

ASDA also has a private label for free-from foods. Its Free From brand has over 100 products that are gluten-, wheat-, dairy-, or nut-free. ASDA Free From gluten-free foods include bakery products like bread, rolls, baguettes as well as cereal bars, cakes, muffins, pies and pasta. Products of manufacturer brands include Livwell baguettes, Carman's muesli, Kallo breakfast cereals, Flax cereal bars, American Muffin Co. muffins and Dietary Specials pies.

A wide range of dairy alternatives are also in ASDA stores. The ASDA private label has a number of soya drinks. Manufacturer brands of milk substitutes include Alpro, So Good soya drinks, Rice Dream rice drinks, and Oatly oat drinks. Alpro and Soyage soya yoghurts as well as Alpro soya desserts are present. Some stores also have Pure soya spread and Alpro soya custard.

Morrisons

The supermarket also has a private label for special dietary foods. The Morrisons Free From brand has over 50 products that are free-from wheat, gluten or dairy. Its gluten-free products include breads, cakes, biscuits and snacks. A number of manufacturer brands are also present that include Dietary Specials and Doves Farm

A large number of dairy alternatives are also in Morrisons stores. The Morrisons private label has soya drinks; other soya drinks are of the Alpro and So Good brands. The Alpro brand also has soya yoghurts and desserts. Some stores have Rice Dream rice drinks.

Waitrose

Waitrose also has a dedicated private label for free-from products. Its Free From brand has over 50 products that are wheat-free, gluten-free, dairy-free and / or egg-free. Another private label, It's Nut Free, has a range of over 100 nut-free products. Gluten-free products in the Free From range include bread, biscuits and cakes. A much wider range of gluten-free products are marketed under manufacturer brand names. The Free to Enjoy brand of Kallo Foods has products like breakfast cereals and jaffa cakes. Other products include Doves Farm bread flour and flapjacks, Ener G bread, and Village Bakery biscuits.

Many brands of dairy alternatives are also in Waitrose stores. Products include So Good soya drinks, Alpro soya drinks & yoghurts, Provamel cream, Pure soya spread, Rice Dream rice drinks and Oatly oat drinks. The Waitrose private label has soya drinks only.

Specialist Retailers

Health food shops and organic food retailers have a wide range of special dietary foods. They were the traditional sales channels of free-from foods until 2002. Although large supermarkets tend to have wider product ranges, many consumers still prefer to buy gluten-free and lactose-free products from specialists.

A broad range of gluten-free products are in health food shops and organic food retailers. The product ranges are similar to supermarkets, however the brands are usually different. Popular products are Ener G bakery products, Honeybuns biscuits, Village Bakery cereal bars, Barkat breakfast cereals and Trufree snacks. The Australian brand Orgran has a wide product range that includes bakery mixes, pasta, biscuits, ready-meals and breakfast cereals.

Specialist retailers also have a broader range of dairy alternatives. Provamel is the leading brand of soya drinks, yoghurts and desserts. Other brands include Sojade, Sojasun, NaturGreen and Granose. Rice Dream and Oatly are the leading brands of rice drinks and oat drinks respectively. Some stores also have EcoMil nut drinks, Swedish glace soya ice-cream and B'Nice rice ice-cream.

Only Holland & Barrett markets soya drinks under its private label. Other specialist retailers do not have private labels for free-from foods.

iii. Sales Breakdown by Channels
About 85 percent of free-food sales are from the supermarkets. The high market share is because of the extensive product ranges in supermarkets. The launch of private label products has had a major impact on the market share.

Specialist retailers have about 13 percent market share. Although organic food shops and health food retailers have these products, the ranges are relatively small. About 2 percent of sales are from other channels like the catering & foodservice sector. Soya drinks are mostly in cafés, restaurants, hotels, factory canteens, government buildings and hospitals.

iv. Retailer Trends
The major retailing trends observed in the free-from products market are:

Retailer private labels. All leading supermarkets are marketing free-from products under their private labels. Private label products are most successful for soya drinks. Even the discounter Lidl is marketing soya drinks under its private label.

Dedicated aisles. Supermarkets like Tesco and Morrisons have given dedicated store areas to free-from foods. The dedicated aisles offer great convenience to consumers with special dietary needs.

Soya drink merchandising. Supermarkets are positioning soya drink as a dairy milk substitute, usually alongside dairy milk on store shelves. This positioning has been partly responsible for the large adoption rate of soya drinks. Consumers who would not normally buy soya drinks are encouraged to do so.

6.4 Product & Pricing Analysis

Figure 16 gives sample retail prices of dairy alternatives. Figure 17 gives sample retail prices of gluten-free products. Products are given of retailer private labels as well as manufacturer brands.

Figure 16

The UK Market for Free-From Foods: Typical Retail Prices of Lactose-Free Products, December 2008

Product	GB £	EUR
Alpro Soya Oy Dairy-Free Shake, Strawberry (3x250ml)	0.98	1.24
Alpro Soya Organic Plain Yoghurt (500ml)	1.29	1.63
Alpro Soya Strawberry Yoghurt (4x125g)	1.28	1.62
Alpro Soya Forest Fruits Yoghurt (500g)	1.29	1.63
Alpro Soya Chocolate Soya Dessert (4x125g)	1.49	1.89
Alpro Soya Organic Fresh Drink (1 litre).	1.59	2.01
Alpro Soya Chocolate Fresh Drink (1 litre)	1.67	2.11
ASDA Organic Soya Milk Sweetened (1 litre)	0.64	0.81
B'Nice Strawberry Rice Ice-Cream 500ml	3.06	3.87
Granovita Deluxe Soyage, Black Cherry Dessert (145g)	0.45	0.57
Granovita Deluxe Plain Soyage Dessert (145g)	0.45	0.57
Lima Organic Chocolate Rice Drink (200ml)	0.69	0.87
Oatly Organic Oat Drink (1 litre)	1.32	1.67
Oatly Healthy Enriched Oat Drink (1 litre)	1.59	2.01
Provamel Vanilla Flavoured Organic Soya Drink (1 litre)	1.39	1.76
Provamel Rice & Calcium Drink (1 litre)	0.98	1.24
Provamel Organic Chocolate Soya Custard (500ml)	1.19	1.51
Provamel Organic Vanilla Dessert (4x125g)	1.59	2.01
Provamel Organic Single Dairy-Free Cream (250ml)	0.79	1.00
Provamel Organic Spreadable Soya Cheese (150g)	1.29	1.63
Provamel Organic Blueberry Yofu (500g)	1.49	1.89
Rice Dream Rice Milk Organic Vanilla Drink (1 litre)	1.69	2.14
Sainsbury's Sweetened Soya Drink (1 litre)	0.63	0.80
Sainsbury's Unsweetened Soya Milk Alternative (1 litre)	0.99	1.25
So Good Soya Drink (1 litre)	1.28	1.62
So Good Dairy Free Soya Life Drink (1 litre)	0.89	1.13
Swedish Glace Rich Chocolate Ice-Cream (750ml)	2.46	3.11
Swedish Glace Neapolitan Iced Non-Dairy Dessert (1.3 litres)	3.28	4.15
Swedish Glace Smooth Vanilla Lollies (6x68ml)	2.79	3.53
Swedish Glace Non-Dairy Vanilla & Strawberry Cornet (6x70g)	4.59	5.81
Tesco Organic Soya Drink, Unsweetened (1 litre)	0.99	1.25
Waitrose Organic Unsweetened Soya Milk (1 litre)	1.15	1.46

Source: Various Retailers

Figure 17

The UK Market for Free-From Foods: Typical Retail Prices of Gluten-Free Products, January 2009

Product	GB £	EUR
Barkat Organic Muesli (250g)	2.49	3.15
Barkat Organic Chocolate Rice Crunchies (250g)	2.49	3.15
Dietary Specials Cornflakes (375g)	2.25	2.85
Dietary Specials Gluten Free Sweet Breakfast Rolls 4 Pack (200g)	2.19	2.77
Doves Farm Nice and Nutty Hazelnut Cookies (150g)	1.59	2.01
Doves Farm Organic Lemon Cookies (150g)	1.59	2.01
Ener-G White Round Rolls (220g)	3.09	3.91
Ener-G Gluten-Free Loaf Bread (228g)	2.90	3.67
Ener-G Sesame Pretzels (113g)	1.59	2.01
Glutano Chocolate Os Sandwich Cookies (175g)	2.49	3.15
Honeybuns Mini Heathcliffe Brownie (35g)	0.70	0.89
Honeybuns Heathcliffe Brownie Tray (730g)	4.99	6.32
Kallo Free To Enjoy Honey Nut Flakes (375g)	2.29	2.90
Kallo Free to Enjoy Indulgent Biscuit Delights Selection Box (200g)	5.49	6.95
Lovemore Iced Fruit Cake Slices (280g)	3.09	3.91
Mrs Crimbles Mini Macaroons (250g)	1.49	1.89
Nanas No Refine Sugar Gluten Free Lemon Cookie (100g)	1.85	2.34
OK Foods Cranberry and Raisin Low Fat Fingers 5 Slice Pack (175g)	2.09	2.65
OK Foods Wild Blueberry Finger 5 Slice Pack (175g)	2.15	2.72
Orgran Outback Animals Chocolate Cookies 175g)	1.95	2.47
Orgran Lemon Poppyseed Muffin Mix (375g)	2.65	3.35
Orgran Gluten Free Bread Mix (450g)	2.95	3.73
Orgran Rice and Cracked Pepper Crispbread (200g)	2.19	2.77
Roleys Teffbrek Fruit Cereal (175g)	5.38	6.81
Roleys Teff Chocolate Cake (pack 6)	4.26	5.39
Tesco Free From White Sliced Bread (400g)	1.98	2.51
Tesco Free From Chocolate Muffins (Pack 2)	1.04	1.32
Tesco Free From Multi-seed Slice Bread (400g)	2.28	2.89
Trufree Herb and Onion Crackers (200g)	2.85	3.61
Trufree Brownies Bites (150g)	3.02	3.82
Trufree Milk Chocolate Digestives (150g)	1.99	2.52
Village Bakery Gluten Free Ginger Biscuits (150g)	2.35	2.98

Source: Various Retailers

6.5 Regulatory Environment

i. Food Labelling
The UK has strict rules for food labelling to protect consumers from food allergies. European Directives 2003/89/EC and 2006/142/EC ensure that all consumers are given comprehensive ingredient listing information and make it easier for people with food allergies to identify ingredients they need to avoid.

The rules for pre-packed foods establish a list of 14 food allergens, which have to be indicated by reference to the source allergen whenever they, or ingredients made from them, are used at any level in pre-packed foods, including alcoholic drinks. The list consists of cereals containing gluten, crustaceans, molluscs, eggs, fish, peanuts, nuts, soybeans, milk, celery, mustard, sesame, lupin and sulphur dioxide at levels above 10mg/kg, or 10 mg/litre, expressed as SO_2.

More information on food labelling is available on:
http://www.food.gov.uk/safereating/allergyintol/label/

In January 2009, the EU passed Commission Regulation (EC) no 41/2009 concerning the composition and labelling of foodstuffs suitable for people intolerant to gluten. The new regulations state that only foods containing less than 20 parts of gluten in a million will be allowed to use the term 'gluten-free' on their packaging. The change in regulation came as evidence showed that this low level offers better protection for people with gluten intolerance. Previously, a food labelled 'gluten free' could have contained up to ten times more than this.

In addition, some foods made using cereals that have been specially processed to remove most of the gluten, but which contain less than 100 parts of gluten in a million, will be able to make the claim 'very low gluten' on the packaging. These include substitutes of certain staple foods such as bread.

European regulations prevent milk substitute products to use the term 'milk'. The European Commission prohibits soya and other cereal drinks to be called milk products. The European Natural Soyfoods Manufacturers Association (ENSA) has been campaigning for the right to use milk on these products. However, the dairy industry wants the milk designation to be only used for animal-derived products. Thus, most non-dairy drinks are consumed and called milk by consumers, however manufacturers are unable to use terms like 'soya milk'. [2]

6.6 Prospects for Dutch Companies

i. Market Entry Guidelines
Although the supermarkets comprise most sales, most business openings for new entrants are in the specialist retailer channel. Retail shelf-space for free-from foods has been saturated since private labels were launched. Indeed, some retailer private labels have cannabilised the market share of branded products in recent years. The supermarkets are expected to be interested in working with new private label producers rather than new brands because of high investment in their brands.

Potential exporters should look to work with the leading wholesalers of health foods. Many companies like Tree of Life and Juniper Fine Foods are established importers.

ii. Products
The dairy alternatives market is highly competitive, with the Belgian company Alpro controlling about half the market. Industry consolidation has led to So Good and Hain Celestial to emerge as the market challengers. The high level of competition is likely to

prevent new entrants to find success in this market. Indeed, new entrants like Unilever and Lasco have withdrawn in recent years.

There are adjudged to be more opportunities in the gluten-free products market for two reasons. First, the market is still showing high growth with no clear market leaders. Second, many products are imported, some from North America and Australia. Prospective exporters should ensure that they can provide high-quality products, especially since a large number of brands are already present.

iii. Key Customers
Most business prospects are in the specialist retailers channel for the following reasons:

The supermarkets are focusing on developing their private label products.

Very few imported brands of dairy alternatives and gluten-free products are in supermarkets, whereas brands like Oatly, Orgran and Ener-G are very popular in specialist retailers.

Health food shops and organic food retailers look for non-mainstream brands and are willing to experiment with new products.

iv. Business Risks & Pitfalls
The major business risks & pitfalls Dutch companies should be aware of are:

i. Competition for retail shelf-space.
High retailer investment in free-from foods has left little shelf-space for new products. Indeed, products like soya drinks & yoghurts are competing for shelf-space against conventional milk and yoghurts. New entrants will find it difficult get listings in specialist retailers as well as supermarkets.

ii. Market withdrawals.
The dairy alternatives market is very competitive, leading to a number of high-profile market withdrawals in recent years. Unilever spent millions launching its AdeZ brand of soya drinks in May 2006. However, it withdrew the brand within 2 years citing flagging sales. Other companies like Lasco and Tom Soya have also withdrawn in recent years because of high competition.

iii. Retailer private labels.
All supermarkets are marketing free-from products under their private labels. The competitive prices and extensive product ranges limit openings for new entrants.

iv. Distribution structure.
As for other health foods, wholesalers are the key to market success. Exporters are advised to target specialist retailers and work with leading wholesalers of natural & organic foods.

v. Marketing & Other Recommendations
Once again, most openings in the UK free-from foods market is in the gluten-free products market. The market is worth just a third that of the dairy alternatives market, however it is not as competitive and there is greater scope for market growth. In comparison, the dairy alternatives market is maturing and has already experienced a number of market withdrawals.

Prospective exporters are advised to look at developing novel free-from products. They should look at come of the most successful brands in the marketplace, like Alpro, Rice Dream, Oatly and Doves Farms. Such products are rarely marketed to consumers with food allergies / intolerances. They are marketed as foods with health benefits or other attributes like organic. For instance, Oatly oat drinks are fortified with vitamins & minerals and the packaging states it lowers cholesterol. Doves Farm gluten-free products like biscuits & cakes are also marketed as organic. Such positioning enables these companies to target two consumer segments.

Since the specialist retailers hold most openings, new entrants should consider marketing activities geared towards these retailers. These include:

Above-the-line promotions like advertising in specialist trade magazines, consumer lifestyle magazines and regional newspapers.

Below-the-line promotions like product casings, merchandising and other Point-of-Sales promotions.

Public Relations like sending press releases and exhibiting at trade shows.

More details on these marketing approaches are given in the organic food section.

vi. Case Study: Royal Wessanen
Royal Wessanen is the most successful Dutch company in the free-from foods sector. The multinational food company focuses on natural & specialty food products, operating a number of subsidiaries in Europe and North America.

Royal Wessanen is active in the UK via its Kallo Foods and So good subsidiaries. Both companies have been acquired: Kallo Foods was bought in August 2002, and So Good was purchased in July 2008. Kallo Foods is one of the leading producers of gluten-free products in the UK. In July 2006 it launched a dedicated brand for free-from foods, Free To Enjoy. The product range now comprises snacks, biscuits, cakes and breakfast cereals. The products are marketed as gluten-free, wheat-free and dairy-free and do not contain any artificial colours, preservatives and hydrogenated fats.

So Good was already established as a leading producer of dairy alternatives in the UK when it was acquired. The company focuses on soya drinks, with its So Good brand a leading brand of chilled soya drinks. It also markets a novel rice drink under the Rice & easy brand.

Royal Wessanen has been successful in the UK free-from market because of its acquisitions. Other Non-British companies that have strong market positions, Alpro and Hain Celestial, also have a direct market presence. A key advantage Royal Wessanen has over its rivals is distribution; the company also owns Tree of Life, the leading wholesaler of natural & health foods to specialist retailers. This key advantage is likely to make the Dutch company focus on specialist retailers with its expanding range of free-from foods.

6.7 References

1. Organic Monitor (2006), The European Market for Soya & Non-Dairy Desserts, Organic Monitor
2. Organic Monitor (2005), *The UK Market for Soya & Non-Dairy Drinks*, Organic Monitor
3. Organic & Natural Business (April 2008), *Taste of Freedom*, Target Publishing
4. Organic Monitor (2007), The South-East Asian Market for Soya & Non-Dairy Drinks, Organic Monitor
5. Natural Products (August 2008), *Setting Food Free*, Diversified Business Communications
6. Food Standards Agency Website, (http://www.foodstandards.gov.uk)
7. The Grocery Trader (August 2006), The Interview: So Good - Soya Milk's Star Shines Bright, Grandflame

7 The UK Market for Other Health Foods

7.1 Market Overview and Summary

There are a large number of other food products that are marketed as health foods. These include fresh fruit & vegetables to highly processed foods that are high in nutrients. In this section of the report, we shall focus on two important categories of health foods:

I. Whole Foods – these are food products that are unprocessed and unrefined, or processed and refined as little as possible. Using this definition, we can classify whole foods as:

- Fresh fruit & vegetables

- Dried foods like grains pulses, beans, fruits, nuts, seeds, etc.

- Whole dairy products like full cream milk, natural yoghurt, etc.

- Bakery products like wholemeal bread, rolls, etc.

- Processed foods like fresh soups & sauces, wholegrain cereal bars & breakfast cereals, etc.

II. Superfoods – the term superfoods is used to describe food with high phytonutrient content which is associated with health benefits. Such phytonutrients include flavanoids, betacarotene and antioxidants. A wide range of foods are classified as superfoods; these include:

- Fruits like pomegranate, apples, avocadoes, bananas, noni, oranges, papaya, etc.

- Berries like açai, goji berries, raspberries, cranberries, blackcurrants, etc.

- Vegetables like broccoli, tomatoes, green beans, spinach, pumpkin, kale, etc.

- Meats & fish like black chicken, turkey and salmon.

- Other products like oats, cacao, blue green algae, flax seed, aloe vera, quinoa, rose hips, etc.

Since it is not possible to accurately categorise whole foods and superfoods, there is no market data available on these two categories. Indeed, there is very little data collected and published information on these categories. This report section therefore serves as an overview, highlighting the major developments & trends.

7.2 Market Indicators

i. Market Size & Trends
As stated previously, no specific research has been conducted on whole foods and superfoods. There is thus no information available on market size and market growth rates.

The trends driving and restraining growth in the other health foods market are similar to those for other health foods. Some of the specific trends for wholefoods and superfoods are:

Media reports fuelling market growth. Media reports about superfoods and their health benefits have boosted sales of many superfood products. Berry-based and oat-based products have soared as consumers see consumption having a positive impact on their health. For instance, blueberry sales have increased by 132 percent since it was hailed as a superfood in 2005.[1]

Cobell, a leading supplier of fruit ingredients, stated that demand for the superfruits: blueberries, cranberries and pomegranates has tripled in recent years.[2]

Lack of categorisation. The difficulty in clearly defining whole foods and superfoods prevents products to be categorised. For instance, food manufacturers and retailers cannot agree on what products go into each category.

Consumer confusion. Because of the lack of categorisation, consumers are confused as to what these health foods are. In many cases, they are aware of the health benefits of products like oats and pomegranate, however they unaware that these products are classified as whole foods or superfoods. Indeed, as the example shows, some products are in both categories.

To add to the consumer confusion, many of these products are also organic / free-from / functional. Consumers thus have a poor understanding of what wholefoods and superfoods are and their specific health benefits.

ii. Product Trends
Some of the major product trends occurring in the other health foods market are:

i. Convergence with other health food sectors.
This trend is highly observed for whole foods and super foods because of the difficulty in clearly categorising these products. Food companies and retailers are positing their products as whole foods / superfoods as well as other attributes (organic / functional / free-from / vegetarian). Such positioning enables them to target a wider consumer audience, especially since whole foods / superfoods are not clearly definable. Examples of such product positioning include:

Wholegrain cereals like Quaker Oats are being fortified with vitamins & minerals, enabling the products to be marketed on multiple nutrient benefits. Such products are positioned as whole foods and / or functional.

Jordans introduced the Superfoods cereal bar in 2006. The product contains the superfoods oats, blueberries, raspberries, blackcurrants and whole foods: grains and nuts, enabling it to be positioned as a superfood and whole food. [3]

Alara Wholefoods launched a novel organic breakfast cereal in 2006. Alara goji & yacon muesli contains goji berries and the prebiotic yacon root. The product can be marketed as organic, functional, whole food and / or superfood. [4]

ii. Marketing on health benefits.
Similar to functional foods, many products – especially superfoods - are marketed on the health benefits of their ingredients. Products that contain berries are often marketed on their antioxidant qualities.

iii. Novel product launches.
Media publicity about superfoods has led to a flurry of new product launches, some involving product innovations. Examples of new product launches and some novel products are given above. Other novel products include:

Ransom Consumer Healthcare launching a novel line of superfruit juices in March 2008. The Optima Superfruit juice range comprises noni, açai, goji and pomegranate juices.

The health food wholesaler Infinity Foods, introducing organic goji muesli under its private label in 2007.

Clipper launched an organic oat drink under the Clipper Organic Oat Cup brand in 2007. The product is made from oats, cinnamon and apples.

7.3 Supply-Side Analysis

i. Supply Chain & Producer Analysis
The supply chain for other health foods is generally the same as other product categories. Large suppliers, whether they be importers or manufacturers, tend to supply the supermarkets direct. Wholesalers are important intermediaries between suppliers and specialist retailers.

It is not possible to give profiles of leading producers because a large number of companies are involved in supplying these products. For instance, large fresh produce companies control the supply of fresh fruit & vegetables, leading dairy companies are the main producers of dairy products, etc.

iii. Wholesaler & Import Analysis
Because of the nature of this product sector, a large number of companies are involved in wholesaling and importing whole foods and superfoods. In most cases, large conventional food companies are involved; for instance, fresh fruit & vegetables, dairy products, cereals & grains. Some dedicated health food companies are also involved in importing and wholesaling these products, especially processed products like wholegrain cereals and fresh soups.

The level of imports varies considerably between products. For example, most fruits are imported into the UK because of the short growing season and unfavourable climate. In contrast, most wholegrain bakery products & cereals are made in the UK. Because of the wide range of products covered, it is not possible to measure the level of imports of each category.

7.4 Sales Analysis

It is difficult to give whole food and superfood product ranges of individual retailers since the product ranges are so wide, comprising fresh, dried and processed products. Supermarkets do not generally have dedicated ranges of these products, with the exception of Tesco and ASDA. These supermarkets have private labels for whole foods.

Tesco has a separate section in its supermarkets for whole foods. Many of these products are marketed under the Tesco Wholefood private label. A broad range of products are marketed under this private label; they include fresh fruits like cranberries and goji berries, dried fruits like apricots and mangoes, beans, grains and nuts.

ASDA markets a range of whole foods under its ASDA Whole Foods private label. The product range mostly comprises dried products like pistachios, dried flageolet beans, black eyed beans and couscous.

Morrisons does not have a private label for whole foods, however it has a dedicated area in some of its supermarkets. The wholefoods section has grains, cereals, nuts, seeds, oils, soups and sauces.

Health food shops and organic food retailers specialise in whole foods. Indeed, almost all the products in a traditional health food shop can be classified as whole foods. Organic food retailers tend to have food products that do not always meet this description because they are highly processed. For instance, organic ready-meals, baby food, and meat products would not meet the definition of whole foods.

The leading specialist retail chains – Holland & Barrett and Whole Foods Market – market many whole food products under their private label products. Dried products, nuts, seeds, grains and cereals are the most common for private labels.

Similar superfood ranges to that in supermarkets are in specialist retailers. Health food shops tend not to have fresh fruits & vegetables, meat & fish products. Organic superfood products are mostly in organic food retailers.

7.5 Product & Pricing Analysis

Because of the difficulty in categorising whole foods and superfoods, it is not possible to give representative product prices. Indeed, many products are fruits, cereals, grains, nuts that are simply marketed as superfoods / whole foods.

To show the wide product ranges, figure 18 gives prices of whole foods marketed under the Tesco Whole foods private label. Figure 19 gives prices of products that are marketed as superfoods by manufacturers. Once again, these are not representative prices because of the wide product ranges in both categories.

Figure 18 The UK Market for Other Health Foods: Typical Retail Prices of Whole Foods, January 2009

Product	GB £	EUR
Tesco Wholefood Stoned Dates (500g)	1.24	1.57
Tesco Wholefood Apricots (500g)	1.38	1.75
Tesco Wholefood Luxury Fruit & Nut Mix (300g)	2.99	3.79
Tesco Wholefood Blanched Prunes (500g)	1.55	1.96
Tesco Whole Sweet Almonds (300g)	2.99	3.79
Tesco Wholefood Cranberries 300g	2.99	3.79
Tesco Wholefood Brown Linseeds (250g)	0.89	1.13
Tesco Wholefood Raisin Sultana & Berry Mix (300g)	2.59	3.28
Tesco Wholefood Fruit & Nut Mix, Cranberry (300g)	2.29	2.90
Tesco Wholefood Ready To Eat Dried Apricots (1kg)	3.99	5.05
Tesco Wholefood Blanched Figs (500g)	2.39	3.03
Tesco Wholefood Mango (300g)	4.59	5.81
Tesco Wholefood Sesame Seeds (300g)	0.85	1.08
Tesco Wholefood Dried Apple Slices (250g)	1.79	2.27
Tesco Wholefood Island Mix (300g)	1.99	2.52
Tesco Wholefood Pinto Beans (500g)	0.89	1.13
Tesco Wholefood Dried Fruit Selection (500g)	2.82	3.57
Tesco Wholefood Mung Beans (500g)	1.19	1.51
Tesco Wholefood Aduki Beans (500g)	0.99	1.25
Tesco Wholefood Soya Beans (500g)	0.99	1.25
Tesco Wholefood Pecan Nuts (300g)	3.45	4.37
Tesco Wholefood Brown Linseeds (250g)	0.89	1.13
Tesco Wholefood Goji Berries (100g)	1.38	1.75
Tesco Wholefood Omega Seed Mix (300g)	2.74	3.47
Tesco Wholefood Dried Fruit Selection (500g)	2.82	3.57
Tesco Wholefood Cranberry & Macadamia Mix (300g)	2.98	3.77
Tesco Wholefood Raisin & Sultana mix (500g)	2.09	2.65
Tesco Wholefood Fruit & Nut Sprinkle (300g)	1.89	2.39
Tesco Wholefood Chewy Banana (300g)	2.99	3.79
Tesco Wholefood Millet (500g)	0.99	1.25
Tesco Wholefood Hazelnuts (300g)	3.39	4.29

Source: Tesco

Figure 19

The UK Market for Other Health Foods: Typical Retail Prices of Superfoods, January 2009

Product	GB £	EUR
Jordans Super Berry Muesli (700g)	3.18	4.03
Jordans Superfoods Granola (750g)	3.79	4.80
Jordans Superfoods Cereal Bar (3x45g)	2.09	2.65
Innocent Superfood Natural Energy Smoothie (250ml)	1.85	2.34
Innocent Superfood Detox Smoothie (1litre)	3.19	4.04
Naked Juice Superfood Green Machine Smoothie (450ml)	2.30	2.91

Source: Various Retailers

7.6 Regulatory Environment

There are no separate regulations for whole foods and superfoods in the UK.

EU Regulation (1924/2006) on Nutrition and Health Claims was passed in the UK in June 2007. Food producers must prove to the European Food Safety Authority that any health & nutrition claims can be backed up by evidence. Many products that are marketed as superfoods will have to be backed by evidence explaining why the food is healthy. More details on this regulation are in the functional food section.

EU legislation on novel foods could threaten to remove some exotic superfoods from the UK. The Novel Food Act states a novel food is a product that has not had significant consumption in the EU before 1997. Since superfoods like açai, maca and yacon have only gained popularity in recent years, these products maybe rendered illegal. Such novel foods have to undertake scientific testing and safety assessments before being registered with the EU. More details are in the functional food section.

Some companies have breached advertising regulations by over-promoting the health benefits of superfoods. In October 2007, the smoothie company Innocent Drinks was told to remove marketing claims about the antioxidant content and detoxifying effect of its Superfoods Smoothie. The Advertising Standards Authority (ASA) said that an advert claiming the Superfood Smoothie contained more antioxidants than a ‘five-a-day’ portion was not truthful or substantiated. [5]

7.7 Prospects for Dutch Companies

It is not possible to specify the business prospects for other health foods because of the difficulty in categorising these products. Some general guidelines are given in this section:

Products. Dutch companies could find openings in both the whole foods and superfood categories, however since the product ranges are so wide it is not possible to specify exact products. Some of the categories Dutch companies should consider are fresh fruit & vegetables, fruit juices, cereals & grains, and dried products like nuts, seeds, and beans.

Key customers. There are deemed to be good opportunities in both mainstream and specialist retailers. Prospective exporters should look to work with wholesalers of health foods and conventional foods. The supermarkets would not prefer to deal direct with exporters, unless they were dealing with private label producers.

Marketing recommendations given for other product sectors are also relevant for these health foods, especially distribution and product differentiation.

7.8 References

1. Natural Products (March 2008), *Superfood Me!*, Diversified Business Communications

2. Eurofood (19 March 2008), *Cobell sees Surge in Demand for Superfruits*, Agra Informa
3. Organic & Natural Business (April 2007), *Something Old, Something New…*, Target Publishing
4. Organic Monitor (2009), *The Global Market for Organic Food & Drink*, Organic Monitor

5. Natural Products (November 2007), *ASA Rules Innocent Guilty on Antioxidant and Detox Claims*, Diversified Business Communications

8 Profiles of Key Companies

8.1 Food Manufacturers & Suppliers

Alara Wholefoods
110-112 Camley Street
London NW1 OPF
Tel: (44) 207 3879 303
Fax: (44) 207 3886 077
www.alara.co.uk

Allied Bakeries
Kingsmill Place
Van Wall Road
Maidenhead
Berkshire SL6 4UF
United Kingdom
Tel: (44) 1628 764 300
Fax (44) 1628 764 390
www.alliedbakeries.co.uk

Alpro (UK) Ltd
Altendiez Way
Latimer Business Park
Burton Latimer
Northamptonshire NN15 5YZ
United Kingdom
Tel: (44) 1536 720 600
Fax (44) 1536 725 793
www.alprosoya.co.uk

Birds Eye
Freepost ADM3939
London SW1A 1YS
United Kingdom
Tel: (44) 020 8918 3200
www.birdseye.co.uk

Boost Juice Bars
Level 1
173 Burke Road
Glen Iris VIC 3146
United Kingdom
Tel: (44) 395 084 409
Fax (44) 395 084 499
www.boostjuicebars.co.uk

Dairy Crest
Dairy Crest House
Portsmouth Rd
Surbiton KT6 5QL
United Kingdom
Tel: (44) 208 910 4000
Fax (44) 208 910 4111
www.dairycrest.co.uk

Cauldron Foods
PO Box 181
Stokesley
Middlesbrough TS9 7WU
United Kingdom
Tel: (44) 845 7413 666
Fax (44) 1642 717231
www.cauldronfoods.co.uk

Clipper
Broadwindsor Road
Beaminster
Dorset DT8 3PR
United Kingdom
Tel: (44) 1308 863344
Fax (44) 1308863847
www.clipper-teas.com

Coca-Cola Enterprises
Charter Place
Uxbridge
Middlesex UB8 1EZ
United Kingdom
Tel: (44) 1895 231 313
www.cokecce.co.uk

The Cotswold Foods Partnership
Cotswold House
Haddonsacre
Station Road
Offenham WR11 8JJ
United Kingdom
Tel: (44) 1386 833 644
www.cotswoldfoodpartnership.co.uk

Dairy Crest
Dairy Crest House
Portsmouth Rd
Surbiton KT6 5QL
United Kingdom
Tel: (44) 208 910 4000
Fax (44) 208 910 4111
www.dairycrest.co.uk

Dalepak Foods
Dale House
Leeming Bar
Northallerton
North Yorkshire DL7 9UL
United Kingdom
Tel: (44) 1677 424 111
Fax (44) 1677 424 443
www.dalepak.co.uk

Danone
International House
7 High Street
London W5 5DW
Tel: (44) 208 799 1000
Fax (44) 208 799 5801
www.danone.co.uk

Doves Farms
Salisbury Road
Hungerford
Berkshire RG17 0RF
United Kingdom
Tel: (44) 1488 684 880
Fax (44) 1488 685 235
www.dovesfarm.co.uk

Duchy Originals
The Old Ryde House
393 Richmond Road
East Twickenham TW1 2EF
Tel: (44) 20 8831 6800
Fax: (44) 20 8538 9991
www.duchyoriginals.com

Eastbrook Farm Organic Meat
Bishopstone, Swindon
Wiltshire SN6 8PW
United Kingdom
Tel: (44) 1793 790 460
Fax (44) 1793 791 239
www.helenbrowningorganics.co.uk

General Dietary
PO Box 38
Kingston Upon Thames
Surrey KT2 7YP
United Kingdom
Tel: (44) 208 336 2323
Fax (44) 208 942 8274
www.generaldietary.com

Gluten Free Products
Unit 270
Centennial Park
Elstree
Hertfordshire WD6 3SS
United Kingdom
Tel: (44) 208 953 4444
Fax (44) 208 953 8285
www.glutenfree-foods.co.uk

Graig Farm Organics
Dolau
Llandrindod Wells
Powys LD1 5TL
United Kingdom
Tel: (44) 1597 851 655
Fax (44) 1597 851 991
www.graigfarm.co.uk

Green & Black's
2 Valentine Place
London SE1 8QH
United Kingdom
Tel: (44) 207 633 5900
Fax: (44) 207 633 5901
www.greenandblacks.com

Hain Celestial
Unit 23 Britannia Estate
Leagrave Road
Luton
Beds LU3 1RJ
United Kingdom
Tel: (44) 1582 401 177
Fax: (44) 1582 453 557
www.hain-celestial.co.uk

Haldane Foods Group
Howard Way
Newport Pagnell MK16 9PY
United Kingdom
Tel: (44) 1908 21 13 11
Fax: (44) 1908 21 05 14
www.haldanefoods.co.uk

Innocent Drinks
1 The Goldhawk Estate
Brackenbury Road
London W6 0BA
United Kingdom
Tel: (44) 208 600 3939
Fax: (44) 208 600 3940
www.innocentdrinks.co.uk

Jordans
Holme Mills
Biggleswade
Bedfordshire SG18 9JY
United Kingdom
Tel: (44) 1767 318 222
Fax (44) 1767 600 695
www.jordanscereals.co.uk

Kallo Foods
Coopers Place
Combe Lane
Wormley
Godalming
Surrey GU8 5SZ
United Kingdom
Tel: (44) 1428 685 100
Fax (44) 1428 685 800
www.kallofoods.com

Kellogs's Marketing & Sales Co.
The Kellogg Building
Talbot Road Old Trafford
Manchester
Lancashire M16 0PU
United Kingdom
Tel: (44) 161 8692000
Fax (44) 161 8692100
www.kelloggs.co.uk

London & Scottish (International) Ltd
Meadow View House
Tannery Lane
Bramley
Surrey GU5 0AB
United Kingdom
Tel: (44) 1483 894 650
Fax (44) 1483 894 651
www.uk5.org

MBMG Produce Ltd
Glenthorn
March
Cambridgeshire PE15 0AW
United Kingdom
Tel: (44) 1354 652 341
Fax: (44) 1354 654 145
www.mbm.uk.com

Marlow Foods
Station Road
Stokesley
Middlesbrough
Cleveland TS9 7AB
United Kingdom
Tel: (44) 1642 710 803
Fax (44) 1642 717 219
www.quorn.com

Masterfoods
Freeby Lane
Waltham On The Wolds
Melton Mowbray
Leicestershire LE14 4RS
United Kingdom
Tel: (44) 1664 410 000
Fax (44) 1664 863 414
www.masterfoods.co.uk

McNeil Nutritionals
The Estate Office
Sutton Scotney
Hampshire SO21 3JW
United Kingdom
Tel: (44) 1962 760060

Meridian Foods
The Estate Office
Sutton Scotney
Hampshire SO21 3JW
United Kingdom
Tel: (44) 1962 761 935

Müller Dairy
Shrewsbury Road
Market Drayton
Shropshire TF9 3SQ
United Kingdom
Tel: (44) 1630 692 000

www.benecol.co.uk

Fax (44) 1962 761 860
www.organix.com

Fax (44) 1630 692 001
www.muller.co.uk

Nestlé
St George's House
Park Lane
Croydon CR9 1NR
United Kingdom
Tel: (44) 20 8686 3333
Fax (44) 20 8686 6072
www.nestle.co.uk

Noble Foods
Bridgeway House
Icknield Way
Tring
Hertfordshire HP23 4JX
United Kingdom
Tel: (44) 1442 891 811
Fax (44) 1442 891 880
www.noblefoods.co.uk

North Downs Dairy
Wincanton Business
Park
Saxon Way
Wincanton
Somerset BA9 9RT
United Kingdom
Tel: (44) 01963 828 828
Fax (44) 01963 828 833
www.pilgrimschoice.com

Organic Farm Foods
Buckle Street
Honeybourne
Evesham
Worcestershire WR11 7QH
United Kingdom
Tel: (44) 1386 848 500
Fax: (44) 1386 849 015
www.organicfarmfoods.co.uk

Organix Brands
Freepost BH1 336
Christchurch
Dorset BH23 2ZZ
United Kingdom
Tel: (44) 1202 479 701
Fax (44) 1202 479 712
www.organix.com

PepsiCo International
63, Kew Road
Richmond,
Surrey TW9 2QL
United Kingdom
Tel: (44) 208 332 4000
Fax (44) 208 332 4042
www.pepsico.co.uk

Primafruit
Enterprise Way
Vale Business Park
Evesham
Worcestershire WR11 1GT
United Kingdom
Tel: (44) 1386 425 000
Fax: (44) 1386 425 001
www.primafruit.co.uk

Quaker Oats
Uthrogle Mills
Cupar
Fife KY15 4PD
United Kingdom
Tel: (44) 1334 652 961
Fax: (44) 1334 656 307
www.quaker.co.uk

Rachel's Dairy
Unit 63 Glan-Yr-Afon
Industrial Estate
Aberystwyth
Dyfed SY23 3JQ
United Kingdom
Tel: (44) 1970 625 805
Fax (44) 1970 626 591
www.rachelsdairy.co.uk

Ransom Consumer Healthcare
Alexander House
40a Wilbury Way
Hitchin
Hertfordshire SG4 0AP
Tel: (44) 1462 437 615
Fax: (44) 1462 420 528
www.williamransom.com

RJA Foods
135 Church Road
Potters Bar
Hertfordshire EN6 1EU
United Kingdom
Tel: (44) 20 7388 7421
www.pomegreat.com

So Good International
Stanley House
57-59 Broadway
Peterborough
PE1 1SY
United Kingdom
Tel: (44) 1733 315 144
Fax (44) 1733 315 934
www.sogood123.com

Soya Health Foods
1 The Courtyard
Ashley Road
Hale
Cheshire WA14 3NG
United Kingdom
Tel: (44) 161 924 1050
Fax: (44) 161 924 1060
www.soya-group.com

Unilever Bestfoods
Brooke House
Manor Royal
Crawley
West Sussex RH10 9RQ
United Kingdom
Tel: (44) 01293 648 000
Fax (44) 01293 648 922
www.unilever.co.uk

Warburton
Hereford Street
Bolton
Lancashire BL1 8HJ
United Kingdom
Tel: (44) 1204 531 004
Fax (44) 1204 523 361
www.warburtons.co.uk

Wellness Foods Orchard Lea Winkfield Lane Windsor Berkshire SL4 4RU Tel: (44) 1344 887 603 www.wellnessfoods.co.uk	Yakult Artemis Odyssey Business Park West End Road South Ruislip Middlesex HA4 6QE Tel: (44) 208 842 7600 www.yakult.co.uk	Yeo Valley Organic The Mendip Centre Blagdon North Somerset BS40 7YE United Kingdom Tel: (44) 1761 462 798 Fax (44) 1761 462 181 www.yeovalley.co.uk

8.1.2 Importers & Wholesalers

Clearspring Unit 19a Acton Park Estate The Vale London W3 7QE United Kingdom Tel: (44) 208 749 1781 Fax (44) 208 746 22 59 www.clearspring.co.uk	Community Foods Brent Terrace London NW2 1LT United Kingdom Tel: (44) 208 450 9411 Fax (44) 208 208 2906 www.communityfoods.co.uk	Essential Trading Cooperative Unit 3, Lodge Causeway Trading Estate Fishponds Bristol BS16 3JB United Kingdom Tel: (44) 117 958 3550 Fax (44) 117 958 3551 www.essential-trading.coop
Good Food Distributors (Foundation Foods) Unit 3 Heart of Wales Business Park Llandrindod Wells Powys LD1 5AB United Kingdom Tel: (44) 1597 824 720 www.gfd.org.uk	Goodness Foods South March Daventry Northants NN11 4PH United Kingdom Tel: (44) 1327 706 611 Fax (44) 01327 701 555 www.goodness.co.uk	Infinity Foods 67b Norway Street Portslade Brighton East Sussex BN41 1AE United Kingdom Tel: (44) 01273 424 060 Fax (44) 01273 417 739 www.infinityfoods.co.uk
Juniper Fine Foods Downs Way Industrial Estate Tinwald Downs Road Heathhall Dumfries DG1 3RS United Kingdom Tel: (44) 1387 249 333 Fax (44) 1387 249 900 www.juniperfinefoods.com	Marigold Health Foods 102 Camley Street London NW1 0PF United Kingdom Tel: (44) 207 388 4515 Fax (44) 207 388 4516 www.marigoldhealthfoods.com	Organico RealFoods Limited Unit 3 City Limits, Danehill Lower Earley Reading Berkshire RG6 4UP United Kingdom Tel: (44) 1189 238 767 Fax (44) 1189 238 761 www.organico.co.uk
Queenswood Natural Foods Bristol Road Bridgwater	Suma Wholefoods Lacy Way Lowfields Business Park	The Health Store Unit 10 Blenheim Park Road

Somerset TA6 4AW United Kingdom Tel: (44) 1278 423 440 Fax (44) 1278 424 084 www.queenswoodfoods.co.uk	Elland HX5 9DB United Kingdom Tel: (44) 1422 313 840 Fax (44) 1422 313 869 www.suma.co.uk	Blenheim Park Nottingham NG6 8YP United Kingdom Tel: (44) 115 976 7200 Fax (44) 115 976 7290 www.thehealthstore.co.uk
Tree of Life UK Lymedale Business Park Newcastle under Lyme Staffordshire ST5 9QX United Kingdom Tel: (44) 1782 567 100 Fax (44) 1782 567 199 www.treeoflifeuk.com	Windmill Organics Image House 34a Clifton Road Kingston upon Thames Surrey KT2 6PH United Kingdom Tel: (44) 208 547 2775 Fax (44) 207 223 8370 www.windmillorganics.com	

8.1.3 Retailers

As Nature Intended 17-21 High Street Ealing London W5 5DB United Kingdom Tel: (44) 208 840 4856 Fax: (44) 208 840 8278 www.asnatureintended.uk.com	ASDA ASDA House Southbank Great Wilson Street Leeds LS11 5AD United Kingdom Tel: (44) 1132 435 435 Fax: (44) 1132 418 666 www.asda.co.uk
Budgens Stores Musgrave House Moorhorn Road Harefield Middlesex UB9 6NS United Kingdom Tel: (44) 870 0500 158 Fax (44) 870 0500 159 www.budgens.co.uk	The Co-operative Group New Century House Manchester M604 ES United Kingdom Tel: (44) 161 834 1212 Fax: (44) 161 831 7684 www.co-operative.co.uk
GNC Vitality House Sixth Avenue Centrum 100 Burton Upon Trent DE14 2WP United Kingdom Tel: (44) 845 601 3248 www.gnc.co.uk	Holland & Barrett Samuel Ryder House Townsend Drive Attleborough Fields Nuneaton Warwickshire CV11 6XW United Kingdom Tel: (44) 2476 244 400 Fax (44) 2476 320 094 www.hollandandbarrett.com

John Lewis Partnership House Carlisle Place London SW1P 1BX United Kingdom Tel: (44) 207 828 1000 Fax (44) 207 592 6333 www.johnlewis.com	Julian Graves Unit 95 Second Avenue Pensnett Trading Estate Kingswinford DY6 7FT. United Kingdom Tel: (44) 845 602 4816 Fax: (44) 1384 297707 www.juliangraves.com
Marks & Spencer Waterside House 35 North Wharf Road London W2 1NW United Kingdom Tel: (44) 20 7935 4422 Fax (44) 20 7487 2679 www.marksandspencer.com	Planet Organic 42 Westbourne Grove London W2 5SH United Kingdom Tel: (44) 20 7221 7171 Fax: (44) 20 7221 1923 www.planetorganic.com
Sainsbury's 33 Holborn London EC1N 2HT United Kingdom Tel: (44) 20 7695 6000 Fax (44) 20 7695 7610 www.j-sainsbury.co.uk	Somerfield Whitchurch Lane Bristol BS14 0TJ United Kingdom Tel: (44) 117 935 9359 Fax (44) 117 978 0629 www.somerfield.co.uk
Tesco Tesco House Delamare Road, Cheshunt Hertfordshire EN8 9SL United Kingdom Tel: (44) 1992 632 222 Fax (44) 1992 630 794 www.tesco.co.uk	Waitrose Southern Industrial Area Doncastle Road Bracknell Berkshire RG12 8YA United Kingdom Tel: (44) 1344 424 680 Fax (44) 1344 824 488 www.waitrose.com
Whole Foods Market 63-97 Kensington High Street London W8 5SE United Kingdom Tel: (44) 207 368 6100 Fax: (44) 207 368 4550 www.wholefoods.com	WM Morrison Supermarkets plc Hilmore House Gain Lane Bradford BD3 7DL United Kingdom Tel: (44) 845 611 5000 Fax (44) 1924 875 400 www.morereasons.co.uk

8.1.4 Associations and Others

British Heart Foundation Greater London House 180 Hampstead Road London NW1 7AW United Kingdom Tel: (44) 207 554 0000 Fax (44) 207 554 0100 www.bhf.org.uk	The British Nutrition Foundation High Holborn House 52-54 High Holborn London WC1V 6RQ United Kingdom Tel: (44) 207 404 6504 Fax (44) 207 404 6747 www.nutrition.org.uk	Committee on Advertising Practice Mid City Place 71 High Holborn London WC1V 6QT United Kingdom Tel: (44) 207 492 2222 Fax (44) 207 242 3696 www.cap.org.uk
Department for Environment, Food & Rural Affairs (DEFRA) Nobel House 17 Smith Square London SW1P 3JR United Kingdom Tel: (44) 207 238 6951 Fax (44) 207 238 2188 www.defra.gov.uk	Fairtrade Foundation UK 3rd Floor Ibex House 42-47 Minories London EC3N 1DY United Kingdom Tel: (44) 207 405 5942 Fax: (44) 207 977 0101 www.fairtrade.org.uk	Food Standards Agency (FSA) Aviation House 125 Kingsway London WC2B 6NH United Kingdom Tel: (44) 20 7276 8000 www.food.gov.uk
The Health Food Manufacturers' Association (HFMA) 1 Wolsey Road East Molesey Surrey KT8 9EL Tel: (44) 208 481 7100 Fax: (44) 208 481 7101 www.hfma.co.uk	Organic Farmers & Growers The Old Estate Yard Albrighton Shrewsbury Shropshire SY4 3AG United Kingdom Tel: (44) 1939 291 800 Fax (44) 1939 291 250 www.organicfarmers.uk.com	Organic Food Federation 31 Turbine Way Eco Tech Business Park Swaffham Norfolk PE37 7XD United Kingdom Tel: (44) 1760 720 444 Fax (44) 1760 720 790 www.orgfoodfed.com
Soil Association Bristol House 40-56 Victoria St Bristol BS1 6BY United Kingdom Tel: (44) 1179 142 400 Fax (44) 1179 252 504 www.soilassociation.org	Which? 2 Marylebone Road London NW1 4DF Tel: (44) 207 770 7000 Fax (44) 207 770 7600 www.which.co.uk	The Vegetarian Society Parkdale Dunham Road Altrincham Cheshire WA14 4QG United Kingdom Tel: (44) 161 925 2000 Fax (44) 161 926 9182 www.vegsoc.org